# United States Court of Appeals for the Second Circuit



**APPENDIX** 

## 75-7008

## United States Court of Appeals

For the Second Circuit.

Docket No. 75-7008

B

STUART A. JACKSON,

Plaintiff-Appellant,

v.

JACK OPPENHEIM,

Defendant-Appellee.

Appeal from Judgment of the United States District Court for the Southern District of New York

JOINT APPENDIX EXHIBIT VOLUME

NOV3 1975

\*\*SECOND CIRCUIT

SECOND CIRCUIT

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Typed Memorandum prepared by Defendant, Oppenheim

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period in which the question of its survival is soing through a period in which the question of its survival is at stake. I am further convinced that present leadership is without an effective plan to meet the emergency. For that reason, I am submitting a proposal which I believe will do much to restore the fiscal integrity, internal harmony, and good reputation of our company.

First, permit me to make some points about the present situation.

Despite the running head start which the Sears Catalogue gave 1969 earnings, adm despite the rosy projections of our leaders (even as late as two months after the fiscal year enfed), a loss was recorded. Our current liabilities exceed our current assets by over \$500,000. Our net worth is under \$100,000.

Managements's only way of keeping the company going is to launch more and more trade books, thereby obtaining advances from Random House. These advances are loans.

The Christmas list has resulted in a bath of red int.

KSON END 1 for -a 1/5/72 SLB Buck Rogers was so incompatently managed that it was only after

the book was out for several weeks that it was discovered that

we did not make a profit if the book sold out its first run of

25,000 copies. All other books on the Christmas 'ist look like

money losers, in the profit of the book sold out its first run of

although the relations work of Jack with speakent his public relations work of Jack with speakent his public relations work of Jack with speakent his public relations.

The publicity department ran costly are in the Times when the books were not in the stores. Management's excuse for this was to argue that it was "good." It built up interest. Such a view has not been supported by

Despite this emperience, management persists in launching books and producing loans from Random House on an empended Fall List. Books are added to the list that no one has seen, let alone read, and without a preliminary production and editorial costing. From Here to the Seventies has never been costed, although its price has been fixed.

Management take the position that no alternative exists, since we need the advances from Random House to meet the payroll.

wing wedged Chelses House into this downward spiral, we are ked to approve its continuation because management can't think any alternative.

Because of the overemphasis on trade books in the past year, the two multi-volume reference works have been launched despite as proven high profitability of that line. The reference desertment itself recently arranged for the sale of the Conservation aries with over \$150,000 profit, when management found itself nable to sail it.

Top management has taken the sole responsibility for the roduction and sale of University-at-Large films. Tespita perdistent warmings to have curricula-oriented scripted films, ianagement has produced films without scripts, without curricula prientation and, to date, largely without purchasers. The Iniversity-at-Large, brilliantly conceived and negligently executed now represents a deficit of over \$200,000. The program relies now in a state of chaos.

The History Machine is succeeding under the direction of Fred, Leon and Bob despite the interference of management. introducing a new \$2,280 product by a relatively unknown concern, management made Bill Poten its national sales manager. Provesticio de la company de l partiantering that the transfer that the never conplated high school, in itself not a disabling fact, at least should have put the burden of proving his qualifications on thos who sponsored him. It was known at the time of his hiring that he had no previous experience in the educational field, and that he had not been gainfully employed in the previous several years. Harold's reliance on serendipity in this case again voring. The ind was actily arm

It was argued at the time (November 1969) that it was sheer folly to entrust the sale of this potentially multi-million dollar product to such an unproven, inexperienced individual.

He was nevertheless placed in charge under Jeffrey's supervision.

Since the school buying year was passing and requests for demon-

of Bill Poten's competence was brought up again in January. As a result, he was given a raise. A suggestion that he and Jeffrey should be given commissions was voted down. It was agreed, how ever, that an effort to employ Marold Marvis of McGraw-Hill would be pursued. Mappily, he joined us in mid-March. Bill Poten ramains on the payroll and perhaps and become a useful assistant for Marris.

In short, reference books, with a proven record of profitability and distinguished product, and the Mistory Machine, whose
potential appears to be partially realizable over the next year
if management provides the necessary cooperation, are areas to
be financially emphasized. Trade, which increasingly loses
money, has taken an increasing amount of executive time and
attention. Overhead increases as the book list grows. We have
reached near the end of our credit with Randon House as well as
the banks. Circumstances could contrive shortly which would
bankrupt the company, leaving creditors unpaid.

A rough plan of organisation was submitted by me several Sulair Fear months ago ath the suggestion of Bob Hector. At had been discussed previously without effect, and no action was taken subsequent to the memorandum although its need was unmistakeable. Harold's position was that it was precisely our lack of structure that was responsible for our current situation. Structure was undesirable, inorganic. My position was, and is, that when organisation's reach the size we reached some time ago, that a degree of bureaucracy is the lesser evil. The absence of clear lines of authority and responsibility, and procedures for the a approval of projects is ahandicap under which the company has labored, because Harold will accept no limits on his sovereignty, no matter how reasonable or necessary. I had proposed an editorial board wherein Harold had two votes and the other members had I believed it was necessary to have stenographic minutes of such meetings to prevent continued misunderstandings as to what had and had not been approved. Andy and Harold effectively

Andy claims that he is performing that function. He, however, was unable to approximate year end earnings two month; s after the fiscal year ended. He has no previous experience as controller. His main function seems to be to draw up inaccurate projections and

prevented the adoption of such procedures.

Each department has been forced to spend an inordinate amount of time deflexting creditors. Those calls are now transferred to Andy. Richard Rovere, with whom Andy negotiated the percentage contract which resulted in our present indebtedness to IT Rovere of over \$15,000, has been unable to reach Andy. He ducks his calls. Fred is embarrassed in his dealings with his contributors, many of whom are personal contacts, by the inability or the unwillingness of the ruling clique to pay them, short of his having to beg. Ir Since ignoring creditors, and is a femiliar aspect of Harold's personal finances, it is not surprising that he has tried to extend this philosophy to his company. His frequent citation that General Motors owes more than we do, and that the more we are in debt the better off we are, as been to a large extent responsible for our being so overextended at the moment. Such sophistry with its transparent error has won the day with our controller.

Creditors, contributors, translators, are made unwilling contributors to the company's capitalization without so much as drawing interest, collecting dividends, receiving stock or an apology.

The New York Magazine article, overlooking its manifest

bed taste, has damaged our creditit both with suppliers and those who purchase our high sounding and high priced goods. Reputable people are increasingly put off by our 'image' and our President who is the living embodiment of that image which he largely created. Professional woman are mauled by Harold and their services are lost to the company, and long standing friendships are impaired.

Underwrite's end up walking away from deals become they
do not have confidence in Harold being able to the lead the company
to financial soundness even though they have faith in our product
line. I cite Earl Brownstein of Ferzfeld & Stern and Stan Shuman
of Allen & Co. as zexemples. Stu Jackson indicated a similar
reaction on the part of Herb Levine. Those are only the instances—
where it has been stated that Harold was the problem at Chelsea
House so far as the financial community was concerned. Others
simply walk away without stating their reasons. Shuman of
Allen& Co. has indicated that they would resume negotiations if
Richard Goodwin came in as president.

even more petty than the foregoing. The Jeffery problem.

The recent attempt by Jeffery in a letter dated Friday, March 13, and demanding a satisfactory response by Monday, March 16th, to collect royalties on three books he asserted responsibility for bringing to Chelsea House, should have been the occasion for his resignation being accepted. That the demands in the letter

Harold who initially couseled that he saw nothing wrong with the request, does not obscure the attempt to defraud creditor. by passing money outside the corporation by the device of ryalties to an on projects mosen by the ruling clique. That it would additionally burden the already troubled financial situation in the trade division, and that no other employee has such an arrangement, should have been contolling. Instead it took threat of resignation by Fred and Leon and lawsuit by me to prevent this particular raid on the treasury. Far better to give kim Segal a \$1,000 bonus for her competent handling over a six month period of the now highly profitable Conservation manuscript.

I recently signed an expense check of I \$141, mainly for meals, for Jeffery. It covered a two week period. Since he claimed that he needed the money immediately, I added my signature to another partner's, and repeated to Jeffery my dismay at such extravagance, when we cannot pay our bills. The point is simply that a double standard continues to be practised in Jeffery's case. Were any other employee to make such arrogant and unreasonable demands, his resignation threat would be accepted. Should any other employee of similar ability have such expensive dining habits, the company would at least limit its payment to those occasions when such meals can be demonstrated to be necessary. Khajikananan

Jeff came in the company in January of 1968 at about \$7500, per annum. In two years his base salary has increased to over \$12,000, and the company pays his car rental, for reasons not clear to me. He was given 3,000 shares of stock free from the company treasury. He has been allowed to carve out an empire which whose employees now exceed MAKEXIMMAEXAMENT in number those under Fred. He was awarded a vice-presidency when the SEC statement erroneously listed him as such. It also listed him as a director, my I managed to defeat that position also being awarded as the result of his father; typographic error.

problem is not good for young Steinberg, and surely harmful to the company. \*\*NINDENDATE AND THE AND T

Fred complains about the difficulty which he has concerning the puerile book jacket copy which Jeff has mistakenly been made responsible for creating. Andy, who at lest debate supported Jeff's meal chits, has been troubled by the placement of ads at atime when books were not yet in the store. fail to see how Jeff is qualified to edt a book on the 1960s, assign the work to writers and write copy himself. I suggested that he engage the services of an over 50 year old historian to help him choose and edit the material, but this suggestion was not acceptable. Boh, was angered by Jeff and Bill's takeover of Fistory Machine sales when his suggestions were summarily disregarded. Since Jeff's involvement in the trade book includes domain ranges I'm choosing the books to be published, designing the jackets, choosing the flap copy, and creating the ads, it is difficult for him to excuse himself from that branches unprofitability. No doubt his value can be found in intangibles. His sponsorship of Bill Poten and supervision thereof has previously been mentioned. The History Machine will. survive that contribution. He deserves credit for the Sterling contract. Coleridge said, "Truth is a good dog; but beware of barking too close to the heels of error, lest you get your brains kicked out.

So now the Plan.

Richard Goodwin be hired as President of Chelsea House.

Jack Oppenheim be elected Chairman of the Board of Directors.

A suitable controller be found and hired.

This would most expeditiously make it possible to restore our financial gredibilty, our fiscal and professional integrity, and our good name, for starters. Harold, Bob, Jeff, and Andy would be utilized wherever the new president would be persuaded that they would be most useful. Leon, Fred and Bill Hansen would be given additional financial assistance for hiring necessary personnel in their areas. The financing of all this would be accomplished by selling the necessary amount of stock to investors. Negotiations with Allen & Co. and others would be undertaken at once.

An editorial Board consisting of Goodwin with two voted and Harld, Bob, Leon, Fred, Andy, Bill Hansen and Harold Harris would determine what book projects be undertaken. 6 votes would be necessary to launch a project. When funds are available an amount not less than \$50,000 would be annually set aside for sposoring new books by promising writers. this seems to be an obligation of publishers. The Trade list and its personnel will be cut to base bones. Books chosen will be on the basis of financial and literary merit.

The History Machine sales program seems to be in solid hands

I ask the Board to approve these recommendation and to authorize me to offer Richard Goodwin a salary not exceeding \$50'000 per annum to act as President of Chelsea House and to WINDENTIME give him up to 25,000 shares of Chelsea House stock as a further inducement. I will of course do my best to bring him in for less.

I have asked Bob Hector to call a Board Meeting not later than April 5th to discuss and vote upon these matter.

P.S. The gravence liet is he merrans auchering.

Joseph Market and Control of the Control of the

#### Plaintiff's Exhibit 2

Securities and Exchange Commission Form S-1, Registration Statement for Chelsea House Educational Communications, Inc., with handwritten comments

## SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D. C. 20549

## FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

## Chelsea House Educational Communications, Inc.

(Exact name of Registrant as specified in charter)

70 West 40th Street New York, New York 10018 (Address of principal executive offices)

#### MR. HAROLD STEINBERG

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. 70 West 40th Street New York, New York 10018

(Name and address of agent for service)

#### Copy to:

STUART A. JACKSON, Esq. ROYALL, KOEGEL & WELLS 200 Park Avenue New York, New York 10017

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

#### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, \$.01 par value	200,000 shs.	\$10.00	\$2,000,000	\$400

<sup>(1)</sup> Estimated solely for the purpose of calculating the registration fee.

. The Registrant hereby amends this Registration Statement on such dates as may be necessary to delay its effective date until the Registration shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Cross Reference Sheet Filed Tursuant to Rule 401(e) Showing Location in Prospectus of Information Required to be Included by Items Unrough 21 of Form S-1

	Item Number and Heading	Caption in Prospectus
1.	Distribution Spread	Cover Page
2.	Plan of Distribution	Cover Page, Nature of the Offer of Common Stock
3.	Use of Proceeds to Registrant	Use of Proceeds
4.	Sales Otherwise Than For Cash	
5.	Capital Structure	Capitalization
6.	Summary of Earnings	Consolidated Statement of Operations
7.	Organization of Registrant	The Company
8.	Parents of Registrant	Principal Shareholders
9.	Description of Business	Business
10.	Description of Property	Business (Property and Employees)
11.	Organization Within Five Years	The Company, Certain Transactions
12.	Pending Legal Proceedings	Pending Litigation
13.	Capital Stock Being Registered	Description of Securities
14.	Long-term Debt Being Registered	
15.	Other Securities Being Registered	
16.	Directors and Executive Officers	Management and Control
17.	Remuneration of Directors and Officers	Management and Control (Remuneration)
18.	Options to Purchase Securities	Management and Control (Qualified Stock Option Plan)
19.	Principal Holders of Securities :	Principal Shareholders
20.	Interest of Management and Others in Certain Transactions	Certain Transactions
21.	Financial Statements	Consolidated Statement of Opera- tions, Consolidated Balance Sheet, Consolidated Statement of Capi- tal in Excess of Par Value and Consolidated Statement of Re-
	η 4	tained Earnings

Omitted because inapplicable or the answer is negative.

Ass net yet become effective. Interneting a secopled price to films the registering by my shall there be any only of the under the secondities have of any such that he week to film the true of any such films.

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Commission to y offers to bery b n of an offer to t or qualification

ction statement relating to there securities has been filed with the Securities and Erchenge I herein is subject to ecceptation or ementional. These securities may not be self and may becomes effective. This prespectes that not constitute an effect to sell or the solicities in one which need to replain the may State is which note the effect went or rate would be unlawful prior to replaintation.

#### 200,000 SHARES

## Chelsea House Educational Communications, Inc.

Common Stock

(Par Value \$.01 per share)

Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price has been determined by the Company, and has no relationship to recognized criteria of value, such as book value, sales or earnings.

THESE SECURITIES HAVE NOT DEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This offering involves:

(a) Special risks concerning the Company. For information concerning such risks, see "Introductory Statement", page 3.

(b) Immediate substantial dilution of the book value of the stock from the public offering price. For information concerning such dilution, see page 4.

The Company is offering hereby up to 200,000 shares of its Common Stock at a price to the public of \$10 per share. The nature of the Company's offering is such that unless payment for at least 100,000 shares of the Common Stock of the Company is received on or before , 1969, the Company will not sell any such shares. (See "Nature of the Offer of Common Stock").

The shares will be sold directly by offerers, directors and employees of the Company (who will receive no discount or commission for their efforts), and may also be sold through brokerdealers. There is, however, no arrangement with any broker-dealer to sell any of the Common Stock offered hereby. To the extent that shares are sold through broker-dealers, the Company will pay the ordinary and usual commissions charged for transactions in the over-the-counter market, which are estimated at \$ per hundred shares.

Based upon the foregoing, assuming that all of the Common Stock issued pursuant to this prospectus was sold by officers, directors and employees, to whom no discount or commission would be allowed or paid, the Company would receive gross and net proceeds of from \$1,000,000 (if 100,000 shares were issued) to \$2,000,000 (if 200,000 shares were issued). Assuming that all such shares issued were sold through broker-dealers, the Company would receive gross proceeds in the same amount as set forth above, but would pay commissions ranging from \$\ (if 100,000 shares were issued) to \$\ (if 200,000 shares were issued), and . In the event that less accordingly would receive net proceeds of from \$ to \$ than 100,000 shares were sold by the Company, the Company could nevertheless have incurred brokerage commissions of up to \$ . In addition, the Company will incur expenses with respect to this offer (other than brokerage commissions) estimated at \$

Officers, directors, employees and broker-dealers who engage in the sale of the Common Stock may be deemed to be underwriters as defined in the Securities Act of 1933.

The above shares of Common Stock are being offered by the Company, subject to prior sale and to withdrawa! of such offer, or to rejection of orders in whole or in part, without notice, and subject to the approval of certain legal matters.

. 1969.

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in the Registration Statement containing this Prospectus. If given or made, such representations must not be relied upon as having been authorized by the Company. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any State in which such offer, solicitation or sale is unlawful.

Until , 1969 (90 days following the date of this offering) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus.

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The offer of up to 200,000 shares of Common Stock of the Company made hereby shall extend from the date hereof until 3:00 P.M., New York City time, , 1969. If at that time, the Company has not received payment for an aggregate of at least 100,000 shares of stock, it will return the payments made on account of the purchases of such stock, and will declare the offer withdrawn. Pending final disposition of such payments, the moneys received by the Company will be held in a special account with Chemical Bank, New York, N. Y.

Commencing on the date on which the Company receives payment for the 100,000th share of stock offered hereby, it shall promptly transmit certificates for shares of Common Stock to the purchasers thereof, and will continue to transmit certificates as purchases are made, until

Persons who wish to purchase shares of the Common Stock offered hereby may do so by remitting payment therefor in an amount equal to \$10 for each share to be purchased, to the Company at its office at 70 West 40th Street, New York City, New York 10018. All payments must be made by check or money order. In addition, orders for shares offered hereby may be placed through brokers. Each payment shall constitute an irrevocable offer to purchase by the purchaser.

#### THE COMPANY

Chelsea House Educational Communications, Inc. is engaged in the publication of books and the production of films pertaining generally to the fields of history, the social sciences and the arts. Until mid-1968, all of the Company's revenues resulted from sales to the educational market of multi-volume reference works, published under the name "Chelsea House Publishers". During the past year, the Company has entered the field of hard-cover and paperback books for sale to the consumer market. In the fall of 1968, University-at-Large Programs, Inc., a subsidiary of the Company, began to market 16 millimeter sound and color educational films. In addition, the Company recently began producing a series of Super 8 millimeter film cartridges, for sale with audio-visual rear screen projectors to schools and libraries.

Most of the Company's multi-volume reference works are distributed by McGraw-Hill, Inc. and R. R. Bowker Company. Random House, Inc., has contracted to distribute the Company's hard-cover and paperback books and Sterling Movies, Inc., distributes certain of the 16 millimeter films. The Company also engages in direct mail selling of its books and films.

The Company was organized under the laws of the State of New York on November 3, 1966, as Lochsley Hall, Inc., to succeed to the business conducted by a general partnership formed in January, 1966. On June 20, 1969 the Certificate of Incorporation was amended to change the name of the Company to Chelsea House Educational Communications, Inc. The Company owns 95% of the outstanding capital stock of University-at-Large Programs, Inc. The term "Company" as used herein shall be deemed to include both Chelsea House Educational Communications, Inc. and its subsidiary. The Company maintains its principal executive office at 70 West 40th Street, New York, New York 10018.

#### INTRODUCTORY STATEMENT

In analyzing this offering, investors should carefully consider, among other factors, the following matters:

1. The Company is in competition in all areas of its business with a number of large book publishing and educational film production organizations, many of which have resources considerably larger than those of the Company.

- 2. Most of the Company's products-are currently being distributed by major book publishing and film organizations. However, there is no assurance that in the future the Company will continue to be able to secure distribution arrangements with these or similar companies.
- 3. The Company is expanding its business into several new fields of operation, and there can be no assurance that its products in these fields will meet with market acceptance.
- 4. Many of the Company's products are sold to educational institutions which are dependent to some extent upon government subsidy for funds. There is no assurance that such government subsidies will continue in the future.
- 5. Prior to the offering made hereby, the four principal shareholders of the Company owned in the aggregate approximately 89% of the outstanding shares of Common Stock of the Company. Following this offering, they will own approximately 69% of such outstanding shares and will be in the position to elect all of the directors of, and otherwise to control, the Company.
- 6. One of the Company's publications, The 1897 Sears Roebuck Catalogue, contributed substantially to the Company's sales and carnings for the fiscal year ended October 31, 1968 and the six months ended April 30, 1969. There is no assurance that this book will continue to sell as well in the future or that the Company will succeed in publishing other books which will meet with equivalent market acceptance.
- 7. At April 30, 1969, \$256,801 of the Company's assets (net of related amortization), equal to 116% of the Company's net worth on that date, represented costs of producing eleven educational 16 mm. films. Although the Company has realized total revenues to April 30, 1969 of \$192,300 from sales of two of such films, there can be no assurance that the Company will be able in the future to realize significant sales on account of its educational 16 mm. films.
- 8. In the event that the Company sells less than the entire 200,000 shares offered hereby, it will receive proceeds in an amount less than its management deems desirable to fund projects proposed to be undertaken by the Company. Certain of such projects would have to be cancelled or curtailed, which might have a materially adverse effect on the Company's operations.

#### Dilution

The net tangible book value as of April 30, 1969 of the 699,969 shares of Common Stock of the Company cutstanding immediately prior to this offering was \$.31 per share. After giving effect to the sale of 200,000 shares of Common Stock to the public and the receipt of net proceeds of approximately \$ per share, which would similarly be the book value of the shares purchased by the public at \$ per share, and thus there will be an immediate dilution of \$ per share in such tangible book value to the purchasers of the shares offered hereby.

In the event that the Company sells only 100,000 shares to the public, it would receive net proceeds of approximately \$\\$, and the net tangible book value of the 699,969 shares of stock outstanding immediately prior to this offering would be approximately \$\\$ per share, which would similarly be the book value of the shares purchased by the public at \$10 per share and thus there will be an immediate dilution of \$\\$ per share in such tangible book value to the purchasers of the shares offered hereby.

Further dilution may occur upon the exercise of options granted and to be grant " pursuant to the Company's Qualified Stock Option Plan (See "Qualified Stock Option Plan").

#### USE OF PROCEEDS

The Company expects to incur costs over the next two years in the production of the following projects (see "Business"):

Project	Estimated Cost
Multi-volume reference works (approximately 14 titles)	\$1,000,000
Multi-subject dictionary	700,000
Consumer books	300,000
Super 8 mm. sound film cartridges	175,000
16 mm. clucational films (approximately 12 films)	240,000
Total	40 445 000

will be received by the Net proceeds ranging from approximately \$ 10 \$ Company after payment of expenses hereunder. All of the proceeds from the sale of the Common Stock being offered hereby will initially form part of the Company's working capital, and will be applied together with any internally generated funds to finance a portion of the costs set forth above and for other corporate purposes. Pending application of the proceeds in the manner described, the Company may invest such moneys in short-term debt securities.

#### CAPITALIZATION

The capitalization of the Company at June 30, 1969, and after giving effect to the sale of 200,000 shares of Common Stock pursuant to this prospectus, is as follows:

	Authorized	Issued	As Adjusted
Note payable to bank(1)		\$ 60,000	\$ 60,000
71/2-81/2% Notes payable	<del>-</del> .	75,000	75,000
6% Note payable of subsidiary (2)		41,400	41,400
4½% Sinking Fund Debenture, due January 31, 1983(3)	2,000,000 shs.	110,000 699,969 shs.(4)	110,000 899,969 shs.(4)

(1) Bears interest at a rate of 1% above the prime rate as the same may vary from time to time. See "Description of Securities" herein.

(2) An installment in the amount of \$13.800 which was due May 1, 1969 has been contested by the Company and has not been paid. See "Pending Litigation" and "Business—Educational Films" herein.
(3) The debenture, held by Andrew E. Norman, an officer and director of the Company, is subordinated to all indebtedness of the Company to banks and other lending institutions.
(4) Not including 25 000 characteristics of the Company to banks.

(4) Not including 25,000 shares reserved for issuance pursuant to the Company's Qualified Stock Option Plan.

With respect to the Company's obligations under long-term leases, see "Property and Employees", and Note 7 of the Notes to Consolidated Financial Statements.

References in this prospectus to number of shares of the Common Stock of the Company have been adjusted to reflect the issuance effective June 20, 1969 of 1879.25 shares for each share outstanding at that date.

#### DIVIDENDS

On May 24, 1967, the Company declared a dividend on its Common Stock in the amount of \$.06 per share.

The Company has not declared any dividends on its Common Stock since May 24, 1967. It has been the Company's policy to utilize earnings to finance its growth and it is anticipated that the Company will continue to do so. Furthermore, under the terms of its 41/2 % Sinking Fund Debenture due January 31, 1983, the Company may not pay cash dividends on its Common Stock prior to November 1, 1971, and may not thereafter pay cash dividends unless sinking fund obligations or other specified payments with respect to the debenture have been satisfied (see "Description of Securities").

The following consolidated statement of operations of Chelsea Horae Educational Communications, Inc. and subsidiary tempore, for the year ended October 31, 1968 and the profession consolidated statement of operations of the predecessor partnership and Subchapter Scorporation for the ten months ended October 31, 1969 has been examined by Price Waterhouse & Co., independent accountments, whose opinion (which is subject to the resolution of the contingency as described in Note 7 to the consolidated functial statements) is included elsewhere in this prospectus. In the opinion of the Company, the unaudited statements of operations for the six months ended April 30, 1968 and 1969 includes all adjustments consisting only of normal and recurring adjustments, necessary for a fair presentation of the results of operations for such periods. The statement gives effect to certain proforma adjustments described in Note B below. The results of operations for the six months ended April 30, 1969 are not necessarily industries of the results of operations for the full fiscal year ending October 31, 1969. The statement should be read in companction with the other financial statements and notes thereto included elsewhere in this Prospectus.

elsewhere in this Prospectus.	Ten months	Year e Octobe		Six month	
	October 31, 1966	1967	1958	1908	1969
	Pro Forma (	Note It)		(Unaud	ited)
Sales	\$ 68,972	\$229,654	\$535,023 · ((8,957)	\$ 18,150	\$1,005,373 (197,551)
Net sales	63,972	229,654	466,136 12,068	18,150 1,175	807,822
Other income	(8,972	229,654	478,204	19,325	£67,822
Costs and expenses: (Note 11) Direct costs and operating expenses Selling, general and administrative (Note 4) Interest	31,60	91,178 - 103,517 516 195,211	189,813 318,565 6,013 514,451	8,753 107,847 493 117,093	303,748 259,133 8,012 571,678
Income (loss) before provision for income taxes and extraordinary items	2,871	34,443	(36,247)	(97,768)	235,724
Provision for income taxes:— Federal: Due currently Deferred State and local: Due currently Deferred	. 200	8,000  4,000	= =	= =	26,000 76,930 7,000 21,650
	800	12,000	(36,247)	(97,768)	139,000
Income (loss) before extraordinary item	n			_=_	21,633
Net income (luss) for the period	\$ 2,071	\$ 22,443	\$(36,247)	\$(97,768)	\$ 127,724
Average number of shares outstanding		563,775	638,945	655,714 .	676,530
Per share of common stock, based on average number shares outstanding after giving effect to recapitalization (Note 4):  Income (loss) before extraordinary item  Extraordinary item  Net income (loss) for the period  Dividend	\$ .01 \$ .01	\$.04 - \$.04 \$.05	\$(.05) - \$(.05)	\$(.15) - \$(.15)	\$ .16 .03 \$ .19

(A) Numerical note references are to Notes to Consolidated Financial Statements appearing elsewhere in this

•	Pro forma adjustments consist of the following:	Ten months ended October 31, 1966	Year ended October 31, 1967
	Net income of predecessor partnership and Sub- chapter S corporation before pro forma adjustments	\$ 18,868	\$ 30,443
	Less pro forma adjustments: Salaries of the partners Provision for federal income taxes	16,197 600	8,000
	Pro forma net income as above	\$ 2,071	\$ 22,443

(B)

The statement includes the results of operations of the business operating as a partnership (during 10 months ended October 31, 1965), as a corporation availing itself of the provisions of Subchapter S of the Internal Revenue Code which permit the carnings or losses of a corporation to be passed directly to its shared offers individual tex returns (during the fiscal year ended October 31, 1967) and as a corporation subject to federal intense taxes thereafter. The adjustments include provisions for federal income taxes which would have been payable had the company been taxed at applicable corporate rates and salaries and drawings of the partners corporate to months ended October 31, 1966) which have been included in selling, general and administrative expenses.

The increase in sales and net income during the six months ended October 31, 1968, and the six months ended April 30, 1969, in comparison with previous periods, is attributable primarily to the following factors: (1) in July 1968 the Company commenced marketing The 1897 Sears Roebuck Catalogue, which produced gross sales of \$296,600 from July 1968 to October 31, 1968, and \$587,000 during the six months ended April 30, 1969 (2) in 1968 the Company entered into contracts with McGraw-Hill, Inc., under which it began to record, on a percentage of completion basis, payments received or to be received from McGraw-Hill for co-publication rights, (3) during the second half of 1968 and the first half of 1969, the Company commenced selling multi volume reference works which were in the developmental stage prior thereto and (4) in 1969, the Company commenced selling its 10 mm, education film reels. See "Business."

#### BUSINESS

The Company is engaged in the publication of books and production of films for sale primarily to libraries, colleges and schools. Until mid-1968, all publications sold by the Company were multi-volume reference works published under the name "Chelsea House Publishers", which product still accounts for a large percentage of the Company's sales and earnings (see "Contributions to Gross Revenues" herein). In July 1968, the Company began the publication of hard-cover books for the consumer market, and revenues from the sale of one of the Company's hard-cover consumer books contributed substantially to the Company's gross sales during the fiscal year ended October 31, 1968 and the six months ended April 30, 1969. The Company has also recently developed a series of film cartridges and a series of 16 millimeter films for distribution primarily to the educational market, and is preparing a line of paperback consumer books expected to be ready for distribution by Fall 1969.

#### Multi-volume Reference Works

#### General

The Company's multi-volume reference works are typically designed to make available in one collection to students, teachers and researchers, widely dispersed documents, interpretive and analytic essays, and other materials, indexed and placed in historical context by leading authorities. As at June 30, 1969, the Company had published, under the name "Chelsea House Publishers", a total of seven multivolume reference works dealing with various subjects pertaining to the social sciences, particularly in the fields of history, law and the judicial process. The works range from two to five volumes and from 760 to 3,264 pages in length, and from \$27.50 to \$125 per set in retail price. Such works generally consist of either (1) a collection of documents pertaining to a specific subject, edited and with text by recognized authorities on the subject or (2) a collection of essays (supplemented, in some cases, with documentary material) on a particular subject by authorities under contract with the Company specifically for the work, and edited by a recognized authority.

The seven titles currently being marketed are:	Authored or Edited by	Introductory Essay and/or Editorial Supervision by
The State of the Union Messages of the Presidents 1789-1966 (3 vols.)	Fred L. Israel	Arthur M. Schlesinger, jr.
Major Peace Treatics of Modern History (4 vols.)	Fred L. Israel	Arnold Toynbee
Messages and Papers of Jefferson Davis and the Confederacy (2 vols.)	James Richardson	Allan Nevins
The History of British India (4 vols.)	James Mill	John Kenneth Galbraith
The Documentary History of Banking and Currency (4 vols.)	Herman Kroos	Paul A. Samuelson
The Justices of the U. S. Supreme Court, 1789- 1969: Their Lives and Major Opinions (4 vols.)	Leon Friedman, Fred L. Israel	Louis H. Pollak
Statutory History of the United States (first 4 vols. in series)	Bernard Schwartz, Robert Stevens, Robert F. Koretz	Bernard Schwartz

In addition to titles currently in publication, the Company has entered into contracts with editors or authors for the publication of cleven additional multi volume titles, eight of which are expected to be ready for distribution between the winter of 1969 and the spring of 1970, including the following representative titles: Documentary History of U. S. Conservation (5 vols.); History of Presidential Elections (4 vols.); Documentary History of U. S. Foreign Policy: 1945-1970 (5 vols.); Major Documents of British History: 1688-1970 (4 vols.); Documentary History of the Third Reich: 1932-1945 (4 vols.) and Foundations of Quantum Physics (3 vols.).

The Company is also undertaking publication of a basic defining reference source on all the social science disciplines, including sociology, psychology, economies, historiography, statistics, archaeology, and anthropology, to be entitled the *Dictionary of the Social Sciences*. The title is expected to be completed in Fall 1971 at an approximate cost of \$700,000.

#### Production

The Company undertakes all steps necessary to deliver camera-ready copy (i.e., the manuscript in either page-proof or film form ready for manufacture) of each multi-volume reference work which it publishes. The Company selects the title, hires the editor and authors, acquires and organizes the materials for the manuscript, and handles the details of preparing the manuscript, including the copyreading, proofreading and typesetting. Editors and authors are generally paid by the Company on a fee, rather than a royalty, basis. The time required in preparing a manuscript has ranged from three to twenty-four months.

With certain exceptions, the manufacture and distribution of the books and related advertising or sales promotion are undertaken and paid for by other publishing houses who have agreed to distribute the books. In the case of certain titles, the Company's production costs are financed by advances from such distributors (see "Distribution" herein.)

#### Distribution

The Company's multi-volume reference works are sold primarily to colleges, schools and libraries. Of the seven multi-volume reference book titles which are presently being sold, four are being distributed pursuant to contracts with either McGraw-Hill, Inc. ("McGraw") or R. R. Bowker Company ("Bowker"). Two other titles were bought outright by Bowker and the seventh is being distributed by the Company through direct mail sales. Furthermore, the Company currently has contracts with McGraw for the distribution of four additional reference titles, which are in various stages of preparation.

Under its arrangements with McGraw, the Company enters into a separate contract with respect to the publication and distribution of each title accepted by McGraw. These contracts require the Company to deliver camera-ready copy to McGraw by a certain date. McGraw is given sole distribution rights to the title, and is required to manufacture and distribute the title at its own expense. Typically, McGraw makes an advance payment for the right to distribute a certain number of copies, payment being made as follows: (1) an amount upon the signing of the contract, (2) a progress payment, and (3) a sum upon delivery of the copy. In event of default in delivery of the camera-ready copy, such advances would be required to be returned. McGraw has the right to require revision of the copy. As to any books distributed by McGraw above the number covered by the advance payment, the Company receives 50% of McGraw's net profits (as defined in the contracts) from the sale of the books.

Under the Company's arrangements with Bowler, Bowker undertakes the manufacture and promotion of the title which it is distributing (The Justices of the U.S. Supreme Court, 1789-1969: Their Lives and Major Opinions, 4 vols.), and pays all editorial production, manufacture, distribution and advertising costs. The net receipts from the sale of the title will be applied to reimburse Bowker for its editorial, production, manufacturing, distribution and advertising costs, and thereafter the Company will receive 50% of the net profit.

Since distribution contracts with McGraw and Bowker are entered into on the basis of individual projects, there can be no assurance that any of the Company's future projects will be accepted by either of them for distribution, or that the relationship with either or both of them will continue. Since at the present the Company has no sales force, if the arrangements were discontinued, the Company would either attempt to secure an arrangement with other publishing firms or undertake the distribution itself through firect mail distribution and/or by creating a sales force.

#### Consumer Publications

The Company began publishing hard-cover books for sale to the consumer market with the introduction of The 1897 Sears Roebuch Catalogue in July 1968. As of June 30, 1969, the Company had sold 105,000 copies of that title. Between late May and mid-July 1969, the Company published the following four additional titles, for which no sales figures are currently available: Jack Johnson is a Dandy: An Autobiography; The Warren Court: A Critical Analysis; Argument: The Complete Oral Argument Before the Supreme Court in Brown v. Board of Education of Topcka; and The Handbook of Gasoline Automobiles, 1904: Five additional titles (including The Drawings of Clacs Oldenburg, The Drawings of Roy Lichtenstein and The Alpine Affair-a suspense novel) are in preparation and are scheduled to be published in the Fall of 1969.

The Company undertakes all the steps in the preparation and manufacture of such books, from selection of topics through printing and binding the book (the printing and binding is handled for the Company on a contract basis by various printing houses). The Company itself initially handled distribution of its first consumer publication through solicitation of mail orders. However, since the Fall of 1968, that book and the remainder of its hard-cover consumer books currently being sold are, and future hardcover consumer books will be, distributed pursuant to a contract with Random House, Inc. Under the contract, the Company pays a commission based upon the amount billed to retailers plus a percentage of the amount of credits on books returned to the Company. In addition, Random House makes advance payments against anticipated distribution revenues. The contract is terminable at will.

The Company is in the process of preparing a line of paperback books, three of which will be published by Fall 1969. The books will deal with various subjects and will be sold to the consumer market at retail prices ranging from \$1.95 to \$2.95. Pursuant to the above described contract with Random House the Vintage Books division of Random House will distribute, under the name "Chelsea House/Vintage", all of the Company's paperback consumer titles. Random House will receive, as a distribution commission, a percentage of the amount billed to the retailer. In addition, the Company may sell certain of such titles through direct mail and advertising solicitation.

#### Educational Films

Film Cartridges: The History Machine

As at July 31, 1969, the Company had produced approximately twenty-five Super 8 mm. sound film cartridges dealing with significant historical events of the 20th century, and directly related to the study of American history for that period. The films are from five to seven minutes in length and are designed to be used with a rear-screen projector, which is a small machine resembling a television set in appearance, and which is readily adaptable to classroom use. The Company is currently offering for delive—in Fall 1969, forty such cartridges are a fairchild Mark IV Projector for a total price of \$2,280. The Company is marketing this product under \$1.5 anne "The History Machine". The films can be produced in other types of cartridges for showing on real and/or front screen projectors of other makes and on video tape. The Company is currently conducting no stations with several firms with respect to the distribution of its film cartridge package to the educational and institutional market.

The Company has begun work on a similar series of sound film cartridges covering European history and expects to have produced fifty cartridges on that subject by Spring 1970. The Company is also planning to produce additional cartridges in the American history series and on poetry and other subjects.

16 Millimeter Films: University-at-Large Programs, Inc.

Through its 96%-owned subsidiary, University-at-Large Programs, Inc. ("University"), the Company produces 16 mm. sound color films for lease and cale to the educational market. The films are generally 30 minutes in length and have a synchronous sound track. Each film features a recognized authority in a field such as drama, literature, the arts, and social sciences or history, who presents a major thesis, argument, or analysis of his field of expertise. University enters into contracts under which the Company pays each authority a retainer and a royalty. General direction of the program is exercised by University's president, Arthur M. Schlesinger, jr. The production of the films is carried out by independent film makers under contract to University, and under University's supervision. University owns all rights to the films, except that University has pledged two such films, and revenues derived therefrom pursuant to its contract with Sterling Movies, Inc. described below, to a bank to secure repayment of a note in the amount of \$60,000. See "Description of Securities."

As at June 30, 1969, the Company had produced nine such films, entitled John Kenneth Galbraith: The Idea of the City; Marshall McLuhan: Pienie in Space; Arthur Schlesinger: Roots of the Cold War; Harold Churman: Ideas on the Theatre; Jerome Bruner: What Makes Man Human; Jerome Bruner: A Time for Learning; Hello Darwin; Buckminster Fuller: Man and the Universe; and Josef Albers: Homage to the Square. The films are sold at a retail price of approximately \$360, and are rented at a rate of \$40 per showing.

Initially the Company rented and sold the films through direct-mail solicitation. On December 9, 1968 the Company entered into a contract with Sterling Movies, Inc. ("Sterling") under which Sterling was granted the exclusive right to distribute two of the above films to educational institutions in the United States, with Sterling to receive a commission based on the retail sales or rental price. Under the contract, Sterling pays all the costs incurred in the distribution of the films and guarantees the purchase of the first 200 prints of each such film. The Company is presently negotiating with Sterling with respect to the distribution rights to the other seven films which the Company has produced. As at June 30, 1969, the Company had conducted no sales efforts with respect to the seven films not covered by the Sterling contract, and its sales and rentals with respect to such films were negligible.

The minority shareholder of University has a right to 2% of the net profits after taxes of University. Film Library

On May 17, 1968, the Company purchased a stock film library for a price of \$58,800, \$17,400 of which has been paid. The library contains approximately 7 million feet of film dealing with news events

institutions and libraries, although, at the present time, there is no competing series of substantially similar material. In the field of 16 mm, educational films the Company competes with numerous firms which offer films of this kind to the educational market. In addition, at least five major publishers have been producing, on a long term basis, documentary and/or educational films for the educational and institutional market. Many of such firms and publishers have financial resources considerably larger than those of the Company.

#### MANAGEMENT AND CONTROL

The directors and executive officers of the Company are:

Name	Position and Office
Harold Steinberg	President and Director
Robert Hector	Chairman of the Board, Treasurer and Director
Jack Oppenheim	Vice President and Director
Andrew E. Norman	Vice President and Director
Stephen Wise	Vice President and Director
Jeffrey Steinberg	Vice President
Stuart A. Jackson	Secretary and Director
Arthur M. Schlesinger, jr	Director
Fred L. Israel	Director

Mr. Harold Steinberg has been president of the Company since its incorporation in November 1966, and from January 1966 until that date was a partner in the Company's predecessor. For more than five years prior thereto he was public relations director of the American Jewish Committee and Commentary magazine. He also has held positions as journalist, film scriptwriter, speech writer and producer. Mr. Steinberg attended City College of New York, Brookian College and the New York University School of Law.

Mr. Robert Hector has been Chairman of the Company since its incorporation in November 1966, and from January 1966 until that date was a partner in the Company's predecessor. From 1964 to 1965 Mr. Hector worked in the theater as a business manager and a press agent. He has also contributed articles to magazines and worked on editorial projects with Crown Publishing Company and Grosset & Dunlap, publishers.

Mr. Jack Oppenheim joined the Company's predecessor as a partner in September 1966, and has been a Vice President of the Company since November 1966. Mr. Oppenheim was a practicing attorney from 1958 through September 1966, and is a graduate of the Harvard Law School.

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Mr. Robert Hector has been Chairman of the Company since its incorporation in November 1966, and from January 1966 until that date was a partner in the Company's predecessor. From 1964 to 1966 Mr. Hector worked in the theater as a business manager and a press agent. He has also contributed articles to magazines and worked on editorial projects with Crown Publishing Company and Grosset & Dunlap, publishers.

Mr. Jack Oppenheim joined the Company's predecessor as a partner in September 1966, and has been a Vice President of the Company since November 1966. Mr. Oppenheim was a practicing attorney from 1958 through September 1966, and is a graduate of the Harvard Law School.

Mr. Andrew E. Norman has been a Vice President of the Company since December 21, 1968. Prior thereto he was associated with the United States Office of Economic Opportunity, Community Action Program, 1966-1968; and was Associate Editor of Current magazine, 1960-1965. Mr. Norman is also

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a Director of Abacus Fund, Inc. Mr. Norman is a graduate of Harvard College and the Harvard Law School.

Mr. Stephen Wise has been employed by the Company since October 1968, and has been, Vice President of the Company since June 13, 1969. For more than five years prior thereto, he was a Vice President of Commodity Chartering Corporation, an owner, charterer and broker of seagoing oil funkers and dry cargo ships, and also Director of Chartering for all subsidiary companies of Scatrain Lines, Inc. He is a member of the Board of Directors of Volume Merchandise.

Mr. Jeffrey Steinberg has been employed by the Company since December 1967 and has been a Vice President of the Company since June 13, 1969. Prior to that, he was managing editor of Hullabaloo magazine, editorial director of New York Scenes and a contributor and free lance writer for a number of magazines. He attended the University of Pittsburgh and New York University.

Mr. Stuart A. Jackson has been Secretary of the Company since June 13, 1969. He has since 1957 been associated with or a partner of the New York law firm of Royall, Koegel & Wells, general counsel to the Company.

Mr. Arthur M. Schlesinger, jr. has held the Albert Schweitzer chair of Humanities at City University since September 1967. Prior to that he was Professor of History at Harvard University, and was advisor to Presidents John F. Kennedy and Lyndon B. Johnson, 1961-1964. He has twice won the Pulitzer Prize and is the author of numerous books on contemporary affairs and American history, including The Age of Jackson, The Age of Roosevelt and A Thousand Days. Mr. Schlesinger has also been president of the Company's subsidiary, University-at-Large Programs, Inc., since June 1967.

Dr. Fred L. Israel has been a member of the Department of History at City College of New York since 1956, where he is now an Associate Professor. He holds a doctorate degree from Columbia University. He is the author of Key Pittman, a biography, and has edited numerous historical works.

#### Remuncration

No officer or director of the Company has received more than \$30,000 per annum in direct remuneration from the Company since its founding.

The aggregate remuneration paid during the fiscal year ended October 31, 1968 by the Company to all officers and directors as a group (five persons) was \$75,551. No officer or director is to receive remuneration for the fiscal year ending October 31, 1969 at an annual rate in excess of \$30,000; however, see "Certain Transactions."

The Company has entered into contracts to employ Messrs. Hector, Harold Steinberg and Oppenheim as Chairman and Treasurer, President and Vice President, respectively, commencing July 1, 1969 at a salary of \$18,000 per year until October 31, 1969, \$25,000 per year for the 12 months enoung October 31, 1970, and \$30,000 per year for the 12 months ending October 31, 1971. The Company has also entered into a contract to employ Mr. Norman as Vice President commencing July 1, 1969 at a salary of \$13,000 per year until October 31, 1969, \$20,000 per year for the 12 months ending October 31, 1970, and \$25,000 per year for the 12 months ending October 31, 1971. In addition, the Company's subsidiary, University-at-Large Programs, Inc., has an employment contract with Mr. Schlesinger as described herein and certain officers and directors of the Company were issued shares of the Company's Common Stock in consideration for services rendered to the Company (see "Certain Transactions").

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#### Qualified Stock Option Plan

The Company has in effect a Qualified Stock Option Plan (hereinafter called the "Plan"), which became effective June 13, 1969, upon approval by the shareholders.

The Plan permits the granting of options, which are intended to be "qualified" stock options under the provisions of the Internal Revenue Code, to selected employees. An individual employee may be granted an option or options to purchase shares of Common Stock at an option price representing 100% of the market value of the Common Stock on the date upon which the option is granted. The options expire five years from the date of issuance, and may not, except in the case of termination of employment by death, be exercised after termination of employment of the option holder. Options may not be granted to employees owning more than 5% of the outstanding Common Stock and no option may be made exercisable earlier than one year from the date of grant thereof.

The Plan will terminate no later than June 12, 1979 and no more than 25,000 shares (subject to adjustment in certain cases, to prevent dilution) may be issued under it.

As at June 30, 1969, the only option outstanding under the Plan was an option to purchase 3,500 shares granted to Arthur M. Schlesinger, jr., a Director of the Company, which option is exercisable at \$10 per share, and expires June 12, 1974.

#### PRINCIPAL SHAREHOLDERS

The principal shareholders of the Company, the amount of Common Stock owned of record and beneficially by each of them as of June 30, 1969, and the respective percentages of the outstanding Common Stock owned by each of them on June 30, 1969 and as adjusted to give effect to the 200,000 shares offered hereby, is as follows:

Name	Shares Owned	% of Class on June 30, 1962	% of Class as /. usted
Robert Hector	153,873 shs.	21.98%	110%
Harold Steinberg	141,865(1)	20.27	15.76
Jack Oppenheim	147,183	21.03	16.35
Andrew E. Norman	180,633(2)	25.80	20.07
All officers and directors as a group (9 persons)	697,969	99.71	77.55

Exclusive of 15,00S shares of the Company owned by his son, Jessey Steinberg, an officer of the Company.
 20,071 of such shares are subject to an option to purchase granted to Mr. Stephen Wise, an officer and director of the Company.

. By virtue of their stockholdings, Messrs. Hector, Steinberg, Oppenheim and Norman may be deemed parents of the Company within the meaning of the Securities Act of 1933.

and persone information, documents, and reports as may be presented by any time or regulation of the

#### CERTAIN TRANSACTIONS

The Company was organized to succeed to the interests of Chelsea House-Mector Publishers, a pattnership consisting of Robert Hector, Harold Steinberg and Jack Oppenheim, who are presently principal shareowners, officers and directors of the Company. Messrs. Hector, Steinberg and Oppenheim each received 187,925 shares of Common Stock of the Company in exchange for receased of the partnership having a book value of \$11,269, representing capital contributed by the partners, together with partnership retained earnings of \$2,671. Such shares were acquired, therefore, at a price of \$.02 per share.

On December 27, 1967, Andrew E. Norman was elected a director and officer of the Company. On the same date, Mr. Norman was issued 105,238 shares of Common Stock of the Company for an aggregate of \$110,040 (\$1.05 per state), and a \$110,000 principal amount 4½% Sinking Fund Debenture of the Company evidencing a load of that amount made by Mr. Norman to the Company. At the same time, Messrs. Harold Steinberg, Hector and Oppenheim each sold to Mr. Norman 20,672 shares of Common Stock of the Company for an aggregate purchase price of \$60,000 (\$.97 per share).

On June 30, 1968, the Company issued to Dr. Fred L. Israel, who was then neither an officer nor director of the Company, 7,517 shares of Common Stock in exchange for the cancellation of a right held by Dr. Israel to receive 1% of the net income of the Company.

On June 30, 1969, Mr. Jeffrey Steinberg, who is an officer of the Company, Mr. Leon Friedman, who is neither an officer nor a director thereof, and Dr. Fred L. Israel, who is a director of the Company, were issued, respectively, 3,000, 2,000 and 5,939 shares of Common Stock by the Company in consideration for services rendered to the Company. In the event that any such person voluntarily leaves the employ of the Company or is discharged for cause prior to June 30, 1970, two-thirds of the shares granted to him revert to the Company, and upon the occurrence of any such event between July 1, 1970-June 30, 1971, one third of such shares will so revert.

Arthur M. Schlesinger, jr. has since June 1967 served as president of the Company's subsidiary, University-at-Large Programs, Inc. pursuant to a contract terminating on June 1971. Under the contract, Mr. Schlesinger renders part-time service to such company and is paid a salary of \$20,000 per year. In addition, Mr. Schlesinger is to receive a 10% royalty, but not less than \$1,000, for each 16 mm. film that he makes for University-at-Large Programs, Inc. The Company also from time to time enters into contracts with Mr. Schlesinger, under which Mr. Schlesinger is retained to edit multi-volume reference works for the Company. At present, Mr. Schlesinger is under contract to edit a total of three books for the Company, for which he has received or will receive an aggregate of \$19,000. In addition, Mr. Schlesinger has been granted an option under the Company's Qualified Stock Option Plan, to purchase 3,500 shares of Common Stock of the Company. See "Management and Control—Qualified Stock Option Plan" herein.

### 41/2% Sinking Fund Dehenture due January 31, 1983

On December 21, 1967 the Company borrowed \$110,000 from Andrew E. Norman, an officer and director and a principal shareholder of the Company, and issued Mr. Norman its 4½% Sinking Fund Debenture due January 31, 1983 (the "debenture"). The debenture agreement requires the Company to make annual sinking fund installments commencing in 1972 equal to the lesser of \$10,000 or 5% of consolidated pre-tax profits of the Company in excess of \$50,000 for the preceding fiscal year. Under the agreement, if additional debentures are issued, additional sinking fund installments are required to be made. So long as any debenture is outstanding under the debenture agreement the Company may not declare any dividend on its capital stock (other than stock dividends) prior to November 1, 1971, and may not thereafter declare dividends (other than stock dividends) unless a sinking fund installment or optional redemption payment of not less than \$10,000 had been made during the fiscal year. The debenture is subordinated in right of payment to all indebtedness of the Company to banks and other lending institutions.

#### Note of Subsidiary

On June 16, 1969, the Company's subsidiary, University-at-Large Programs, Inc. ("University") borrowed \$60,000 from Chemical Bank and issued a demand promissory note, payable in quarterly installments, to Chemical Bank bearing interest at a rate of 1% above the prime rate as the same may vary from time-to-time. The bank has agreed that no demand shall be made for payment of such note for 18 months unless a default in the quarterly payments upon such notes has occurred. University has pledged, to secure payment of such note, two 16 mm. films owned by University, together with all amounts to be received from the distribution agreements made with Sterling Films, Inc. described in "Business—Educational Films."

#### Common Stock

The Company has one class of stock, its Common Stock. Each holder of the Common Stock is entitled to one vote for each share on all matters to be voted upon by shareholders, including the election of directors. All shares are entitled to participate equally and ratably in dividends, when and if declared, and upon distribution of the assets of the Company on liquidation. Holders of Common Stock have no preemptive rights. The presently outstanding shares are, and when they are issued the shares to be outstanding upon completion of the offering being made hereby will be, fully paid and nonassessable.

#### Non-Cumulative Voting

The Company's Certificate of Incorporation does not provide for cumulative voting and accordingly the owners of more than 50% of the Common Stock may elect all the directors, in which event the remaining shareholders will not be able to elect any directors.

The Transfer Agent and Registrar for the Common Stock is Chemical Bank, New York, N. Y.

#### Reports to Sharcholaers

The Company intends to furnish its shareholders annual reports containing financial statements examined by certified public accountants, and also with unaudited semi-annual financial statements. From time to time the Company also intends, if developments warrant, to furnish its shareholders with additional information about the Company and its operations.

#### PENDING LUTGATION

In August 1968 the Company commenced an action in the Supreme Court of the State of New York, County of New York, seeking to rescind a contract with Filmvideo Releasing Corp. for the purchase by the Company of a film library (see "Business--Educational Films"), on the grounds that defendant breached a warranty contained in the contract of purchase. The Company's action for rescission was dismissed by the Supreme Court, and the Company has filed a notice of appeal. The defendant has counterclaimed for \$41,400, allegeing non-payment of a note installment in the amount of \$13,800 which was due May 1, 1969 and claiming that the entire \$41,400 payable for the film library is accelerated in time of payment because of the alleged default. The Company has withheld payment of the \$13,800 installment because of its contention that the purchase contract should be rescinded. The Company is unable to predict the outcome of its claim or the counterclaim of defendant, but does not believe that such outcome will have a materially adverse effect on its operations.

#### LEGAL OPINIONS

Legal matters in connection with the securities offered by the Company are being passed upon for the Company by Messrs. Royall, Koegel & Wells, 200 Park Avenue, New York, New York, Stuart A. Jackson, Esq., a member of the firm of Royall, Koegel & Wells, is an officer and director of the Company.

#### EXPERTS

The financial statements included in this Prospectus and the schedules included in the Registration Statement, except as they relate to the six-month periods ended April 30, 1968 and April 30, 1969, have been examined by Price Waterhouse & Co., independent accountants, whose opinions thereon appear herein and elsewhere in the Registration Statement, and have been included by the Company in reliance on the opinion of such firm and on their authority as experts in auditing and accounting.

#### REGISTRATION STATEMENT

The Company has filed a Registration Statement (No. 2- ) relating to this offering. This prospectus omits certain information contained in the Registration Statement as amended, on file with the Securities and Exchange Commission at its principal office in Washington, D. C.

To the Board of Directors Chelsea House Educational Communications, Inc.

We have examined the accompanying consolidated balance sheet of Chelsea House Educational Communications, Inc. and subsidiary company as of October 31, 1968 and related consolidated statements of retained earnings and capital in excess of par value together with the consolidated statement of operations for the year ended October 31, 1968 and the pro-forma consolidated statement of operations for the ten months ended October 31, 1966 and year ended October 31, 1967 appearing elsewhere in this Prospectus. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting a cords and such other auditing procedures as we considered necessary in the circumstances.

Physical inventories have not been taken by the company. However, we satisfied ourselves as to the reasonableness of the amounts thereof by confirmation with the manufacturers and distributors used by the company and by performing such other procedures as we considered appropriate.

As described in Note 7 to the consolidated financial statements, the company is contingently liable for the payment of certain remuneration in the aggregate amount of approximately \$70,500 at October 31, 1968.

In our opinion, subject to the resolution of the contingency referred to in the preceding paragraph, the above mentioned financial statements present fairly the consolidated financial position of Chelsea House Educational Communications, Inc. and subsidiary company at October 31, 1968 and the results of their operations for the year then ended and, on the basis set forth in Note (B), the proforma results of their operations for the ten months ended October 31, 1966 and year ended October 31, 1967, all in accordance with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & Co.

New York, N. Y. July 25, 1969

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. CONSOLIDATED BALANCE SHEET

ASSETS	October 31, 1968	April 30, 1969
Current assets:  Cash Accounts receivable (Note 5) Unbilled costs and accrued carnings on contracts in process (Note 2)	\$ 51,859 81,729 23,770	(Unaudited) \$ 56,275 178,701 126,270
Books (Note 8)	104,056 212,545	165,523 273,501
(1969) (Note 9) Prepaid expenses and other	22,154	-0-
Bookplates, less accumulated amortization of \$1,816 (1968) and \$5,048	496,113 7,499	800,270 4,267
(1969)  Furniture, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$536 (1968) and \$1,203 (1969)	7,623	14,114
Film library (Note 9)	58,800 2,562	58,800 7,065
Organization costs, less accumulated amortization of \$1,300 (1968) and \$1,725 (1969)	2,950	2,525
Total assets	\$575,547	\$887,041
LIABILITIES AND STOCKHOLDERS' EQUITY  Current liabilities:  Notes payable (Note 5)  Accounts payable  Accrued expenses  Accrued taxes  Income taxes payable  Advances from distributor  Accrued compensation (Note 4)	\$ 88,800 202,259 38,902 3,216 13,751 346,928	\$102,600 168,957 77,560 4,192 12,000 65,000 17,189
Total current liabilities	340,920	
Other liabilities and deferrals  Deferred income taxes (Note 3)  Notes payable (Note 5)  4½% Sinking Fund Debenture (Note 6)	27,600 110,000	97,000 13,800 110,000
,	137,600	220,800
Stockholders' Equity Common stock, \$.01 par value Authorized—2,000,000 shares Issued and outstanding 676,530 shares (Note 4) Capital in excess of par value Retained earnings (deficit) (Note 6)	120,001	6,765 120,501 91,477
Actualist Commission (1997)	91,019	218,743
Commitments and contingent liability (Note 7)  Total liabilities and stockholders' equity	\$575,547	\$887,011

### CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

### CONSOLUDATED STATEMENT OF RETAINED EARNINGS

	Ten months ended October 31.	Year ended (	October 31,	Six months
	1966	1967	1968	April 30, 1969
				(Unaudited)
Retained carnings (deficit), beginning of period	_	_	_	\$(36,247)
Net income (In 1966 and 1967 amounts are before pro forma adjustments—See Note B to Consolidated Statement of	. 10.070	# management of the		
Operations)	\$ 18,868	\$ 30,443	\$(36,247)	127,724
Distribution to partners prior to incorpora-	(16,197)	_	_	_
Net income of predecessor partnership capitalized on incorporation	(2,671)	_	-	
Dividend:				
Paid in cash	-	(9,000)	-	_
Cancellation of receivable resulting from cash advance to shareholders	_	(27,000)		_
Excess of dividend paid over retained earn- ings, charged to capital in excess of par				
value	_	5,557	_	-
Retained earnings (deficit), end of period	\$	\$ —	\$(36,247)	\$ 91,477

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. CONSOLDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Ten months ended October 31.	Year ended (	October 31,	Six months ended April 30,
	1966	1967	1968	1969
				(Unaudited)
Capital in excess of par value, beginning of period	-	\$ 5,632	\$ 6,552	\$120,501
Excess of net assets of predecessor partner- ship (including earnings of \$2,671) over par value of 563,775 shares issued on incorporation	\$ 5,632	_	_	
Excess of proceeds over par value of com- mon stock:				
Parent company, 105,238 shares	-	_	108,988	–
Subsidiary company	_	3,996	-	-
Excess of valuation of 7,517 shares issued June 30; 1968 over par value	·	2,481	4,961	. —
Excess of dividend paid over retained earn- ings available		(5,557)		
Capital in excess of par value, end of period	\$ 5,632	\$ 6,552	\$120,501	\$120,501

## CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1963 and April 30, 1969 (Unaudited)

#### NOTE 1-PRINCIPLES OF CONSOLIDATION:

The accompanying financial statements include the accounts of the Company and its 96% owned subsidiary, University-at-Large Programs, Inc.

The 4% minority stockholder in University-at-Large Programs, Inc. has the right under an agreement to receive annually 2% of the subsidiary's net income after taxes. Because the subsidiary has operated at a loss, no amounts have been provided for such payments. The Company may under certain conditions he obligated to pay the minority stockholder up to \$12,000 at such time or times as advances from the parent are repaid by the subsidiary.

The excess of liabilities over assets of the Company's subsidiary as shown by its financial statements exceeded the Company's investment therein by \$170,110 at October 31, 1968 (\$171,775 at April 30, 1969) which in consolidation has been charged to retained earnings.

#### NOTE 2-SALES:

A majority of the company's gross sales for the year ended October 31, 1968 and the six months ended April 30, 1969 were derived from one published book.

Approximately 28% (year ended October 31, 1968) and 22% (six months ended April 30, 1969) of the company's sales were under contracts calling for the development by the company of manuscripts for delivery to a publisher/distributor. Payments are received at various times during the development of the manuscripts. A portion of the total contract price is recorded as income based on management's estimate of the percentage of completion achieved with respect to each such contract.

Gross sales from films amounted, respectively, to approximately 2% (1968) and 18% (1969) of total gross sales.

#### NOTE 3-INCOME TAXES:

Income on certain contracts is recorded for financial accounting purposes in excess of amounts reported for income tax purposes. Also, the value of restricted stock (Note 4) is deductible for income tax purposes whenrestrictions lapse whereas expenses for accounting purposes have been reported in earlier periods. Deferred income tax provisions for the six months ended April 30, 1969 in the amount of \$97,000 represent the effect of such differences.

Investment tax credits available to the company have not been material in amount.

The company has not operating losses available of \$36,000 for book purposes and \$138,000 for tax purposes at October 31, 1968 both expiring in 1973. Based upon reported net income for the six months ended April 30, 1969, all net operating loss carryforwards would have been utilized.

#### NOTE 4-RECAPITALIZATION:

On June 20, 1969, by amendment to its Certificate of Incorporation, the company increased its number of authorized shares of common stock to 2,000,000. 360 shares previously outstanding were exchanged for 676,530 new shares of \$.01 par value common stock. The recapitalization has been given effect to in the accompanying financial statements.

Subsequent to this recapitalization 10,939 shares were issued on June 30, 1969 for services performed and/or to be performed by three persons. Certain of the shares issued are subject to restrictions and reversion to the company should employment be terminated under certain conditions before specified dates. On the basis of estimated fair values of stock issued, compensation expenses in the aggregate amount of \$17,189 has been allocated to the period November 1, 1966 through April 30, 1969. Liabilities therefor of \$13,751 (1968) and \$17,189 (1969) were considered liquidated upon issuance of the shares. Additional expenses of approximately \$37,500 will be charged against income from May 1, 1969, through June 30, 4971, the date on which final restrictions lapse. In addition approximately

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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\$7,500 was allocated to the years 1967 and 1968 for stock issued to an employee at June 30, 1968. The expense related to the foregoing transactions is deductible by the company for income tax purposes in the years in which restrictions lapse.

For information regarding the company's qualified stock option plan adopted and options granted subsequent to April 30, 1969, see "Qualified Stock Option Plan" elsewhere in this Prospectus.

#### · NOTE 5-NOTES PAYABLE:

Notes payable consisted of the following:

, and the constitution of	October 31, 1968	April 30, 1969
Bank:	<b>4</b> 20 000	
71/2% due November 13, 1968	\$ 20,000	_
71/2% due November 22, 1968	30,000	_
7% due January 22, 1969	25,000	
8½% due June 17, 1969		\$ 75,000
0,770	\$ 75,000	\$ 75,000
For purchase of film library: (Note 9)		
6% due May 1, 1969	13,800	13,800
6% due February 1, 1970	13,800	13,800
6% due February 1, 1971	13,800	13,800
	41,400	41,400
	116,400	116,400
Less: non-current portion	27,600	13,800
Due currently	\$ 88,800	\$102,600

Subsequent to April 30, 1969, the subsidiary company borrowed an additional \$60,000 from a bank. Receivables from the sale of two films (Note 2) which at April 30, 1969 amounted to \$96,000 and the related films were assigned as security for this loan. This debt bears interest at the rate of 1% above the bank's prime commercial rate and is payable in quarterly installments of amounts equal to the amount received by the distributor of the two films. The bank has agreed that no demand shall be made for payment of such note for eighteen months unless a default in the quarterly payments upon such notes has occurred.

#### NOTE 6-41/2% SINKING FUND DEBENTURE:

The debenture agreement with respect to the \$110,000 4½% debenture payable to a major stockholder requires the company to make sinking fund installments in each year commencing with 1972 equal to the lower of \$10,000 or 5% of consolidated pre-tax profits of the Company in excess of \$50,000 for the preceding fiscal year. Under the agreement, if additional debentures are issued, additional sinking fund installments are required to be made. So long as any debenture is outstanding under the debenture agreement the Company may not declare any dividend on its capital stock (other than stock dividends) prior to January 31, 1972, and may not thereafter declare dividends (other than stock dividends) unless a sinking fund installment of not less than \$10,000 had been made during the preceding fiscal year. The debenture is subordinate to certain other indebtedness of the company. The company may prepay this indebtedness at its option.

#### NOTE 7 -COMMITMENTS AND CONTINGENT LIABILITY:

The company leases its office space for an approximate annual rental increasing from \$41,000 to \$46,000 through January 31, 1976.

In 1967, the subsidiary company entered into agreements with ten individuals to provide consultative services to the company at a specified annual remuneration. The company coatends that it is responsible for the extremunerations only as the contemplated services of these individuals are called upon and utilized by the company. Since services have not been rendered under several of these agreements no provisions for such payments are included in the accompanying financial statements. Should it become necessary for the company to pay such amounts from the dates of the agreements, additional expenses of \$27,000 and \$43,500 for the years ended October 31, 1967 and 1968 (\$23,000 and \$20,000 for the six months ended April 30, 1968 and 1969) would be incurred. Had such amounts been recorded as expenses, net income (loss) after applicable income taxes and tax reductions, would be as follows:

	Year ended October 31,		April 30,	
	1967	1968	1968 (Unauc	1969 dited)
Net income (loss)	\$9,753	\$(79,747)	\$(121,268)	\$144,754
Per share	\$.02	\$(.12)	\$(.18)	\$.21

No claims with respect to such remuneration are currently pending.

For information concerning certain other employment contracts, see "Remuneration" on page 14 of this Prospectus.

#### NOTE 8-INVENTORIES OF BOOKS:

Inventories of books used in determining direct costs and operating expenses are as follows:

October 31, 1956	\$ 7,100
October 31, 1967	\$ 30,249
October 31, 1968	\$104,056
April 30, 1969 (Unaudited)	\$165,523
2011(BB) - TEN	-

Inventories are valued at the lower of cost (first-in, first-out basis) or market. Major classifications are as follows:

	October 31, 1968	April 30, 1969
Bound books	\$ 18,063 52,475 33,518	(Unaudited) \$ 52,832 112,691
	\$104,056	\$165,523

#### NOTE 9-FILM INVENTORY AND FILM LIBRARY:

Film costs included in inventory comprised the following:

October 31,		oer 31,	April 30.	
	1967	1968	April 30, 1969	
			(Unaudited)	
Film costs	\$ 6,750	\$218,594	\$305,215	
Amortization		6,049	31,714	
	\$ 6,750	\$212,545	\$273,501	

Direct operating costs are charged with the amortization of deferred costs on the basis of the relationship of revenue received to total asticipated revenue with respect to each film. Amortization so charged was \$6,649 (1968) and \$25,655 (1969)

A film library was purchased in 1968 for cash of \$17,400, and notes payable (Note 5) of \$41,400. The film library is pledged as security for these notes. The company has initiated a legal action to rescind the purchase based on an alleged breach of warranty in the purchase contract and has not paid one note due May 1, 1969 pending the outcome of the action. Should that action be fully successful, the asset and related notes payable would be eliminated and cash paid would be returned. The effect of such reselssion on the results of operations would not be material.

#### NOTE 10-PROPERTY AND EQUIPMENT:

The balances in property and equipment accounts and the estimated useful lives used for determining annual depreciation in the accounts are as follows:

, .	October 31, 1968	April 30, 1969	Estimated useful life
		(Unaudited)	
Bookplates	\$ 9,315	\$ 9,315	1½ years
Furniture and equipment	\$ 7,493	\$ 14,115	5-10 years
Leasehold improvements	666	1,202	Lives of leases
	\$ 8,159	\$ 15,317	

Provision for depreciation in the accounts is computed by the straight line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lives of the leases. Maintenance and repairs are charged to income currently, while renewals and betterments are capitalized. Upon retirement or disposal of property and equipment, the cost thereof and related depreciation are removed from the accounts and any gains or losses are included in income. There have been no material retirements or dispositions.

#### NOTE 11-SUPPLEMENTARY PROFIT & LOSS INFORMATION:

OTE 11-SUPPLEMENTARY PROFIT & LOSS INFORMATION.				
	Ten months ended October 31,	Year ended C		Six months ended April 30, 1969
	1966	1967	1968	1909
				(Unaudited)
Charged to selling, general and administrative expenses Depreciation and amortization	: :	\$ 489	\$ 9,212	\$29,989
Taxes, other than income taxes: Payroll		2,245 216	6,043 1,952	<b>4,</b> 589 <b>553</b>
Rent	. 1,125	3,080	18,936	18,322
Charged to direct costs and operating expenses: Royalties and authors' fees	. 3,800	49,781	51,230	61,574

Item 22. Marketing Arrangements.

None.

Item 23. Other Expenses of Issuance and Distribution.

*Registration Fee under Securities Act of 1933	\$	400.00
Printing		**
Accounting Fee		**
Attorney's Fcc	3	**
Blue Sky Fees and Expenses		**
Miscellaneous		**
Total	-	

<sup>\*</sup>Actual. All other expenses estimated.

Item 24. Relationship with Registrant of Experts Named in Registration Statement.

So far as is known to the registrant, none of the persons named in the Registration Statement or in the Prospectus as having prepared or certified any part thereof has any interest in the registrant, or has been employed on a contingent basis.

Item 25. Sales to Special Parties.

(See Item 26.)

Item 26. Recent Sales of Unregistered Securities.

On November 3, 1966, the Company issued 100 shares of Common Stock to each of Messrs. Harold Steinberg, Robert Hector and Jack Oppenheim, in exchange for assets having a value of \$11,269 (\$37.56 per share).\*

On December 27, 1967, the Company issued 56 shares of Common Stock to Andrew E. Norman for an aggregate price of \$110,040 (\$1,965.00 per share).\*

On December 27, 1967, the Company issued its 4½% Sinking Fund Debenture due January 31, 1983, in the principal amount of \$110,000, to evidence a borrowing in that amount from Mr. Norman.\*

On June 30, 1968, the Company issued 4 shares of Common Stock to Fred L. Israel in exchange for Mr. Israel's right to receive 1% of the profits of the Company.\*

The aforementioned transactions were exempt from registration under the Securities Act of 1933 by reason of Section 4(2) thereof as being transactions by an issuer not involving a public offering.

Effective June 20, 1969, the Company issued 1879.25 shares of its Common Stock for each share outstanding on that date. This transaction was exempt from registration under the Securities Act of 1933 by reason of Section 3(a)(9).

On June 30, 1969, the Company issued to Messrs. Stuart A. Jackson, Jeffrey Steinberg, Leon Friedman and Fred Israel, 12,500, 3,000, 2,000 and 5,939 shares, respectively, of its Common Stock. The shares of Messrs. Steinberg, Friedman and Israel were issued in consideration for services rendered to the Company. Mr. Jackson's shares were issued in consideration of his acting as a finder for the Company; but since the Company has determined to make its offering by itself and without an underwriter, Mr. Jackson will return such shares to the Company. Such transactions were exempt from registration under the Securities Act of 1933 by reason of Section 4(2) thereof as being transactions by an issuer not involving a public offering.

#### Item 27. Subsidiaries of Registrant.

The Company has one subsidiary, University-at-Large Programs, Inc., a New York corporation, 96% of whose voting securities are owned by the registrant. The accounts of such subsidiary have been included in the financial statements and schedules in the Registration Statement.

<sup>\*\*</sup>To be supplied by Amendment.

<sup>\*</sup>Before giving effect to the issuance by the Company of 1879.25 shares of its Common Stock for each share outstanding on June 20, 1969.

Section 724 of the New York Business Corporation Law specifies the manner in which payment of indemnification to officers and directors may be authorized by the corporation. It provides that indemnification by a corporation is mandatory in any case in which a director or officer has been completely successful, whether on the merits or otherwise, in defending an action. If the officer or director has not been wholly successful or the action is settled, indemnification must be authorized by the appropriate corporate action as set forth in Section 724.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer, or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

#### Item 30. Treatment of Proceeds from Stock Being Registered.

Of the net proceeds from the sale of the Common Stock being registered hereby, the par value of the Common Stock issued will be credited to the Common Stock account, and the excess will be credited to capital surplus.

#### Item 31. Financial Statements and Exhibits.

#### (a) Financial Statements and Schedules:

Included in the Prospectus:

.Opinion of independent accountants.

Consolidated balance sheet as of October 31, 1968 and April 30, 1969 (Unaudited).

Consolidated statement of operations for the ten months and two years ended October 31, 1968 and for the six months ended April 30, 1968 and 1969 (Unaudited).

Consolidated statement of retained earnings for the ten months and two years ended October 31, 1968 and the six months ended April 30, 1969 (Unaudited).

Consolidated statement of capital in excess of par value for the ten months and two years ended October 31, 1968 and six months ended April 30, 1969 (Unaudited).

Included in Part II of the Registration Statement:

Schedule V-Property Plant and Equipment for the ten months and two years ended October 31, 1968 and six months ended April 30, 1969 (Unaudited).

Schedule VI—Reserves for Depreciation and Amortization of Property, Plant and Equipment for the ten months and two years ended October 31, 1968 and for six months ended April 30, 1969 (Unaudited).

All other schedules and historical financial information required by Part E are omitted from this Registration Statement because they are inapplicable or the required information is shown in the financial statements and notes thereto.

Individual financial statements of the Registrant are omitted since the Registrant is primarily an operating Company, and its subsidiary which is included in the consolidated financial statements filed is deemed to be totally held.

(b)	Exhibits:	
	1	→None.
	2(a)	Assignment and Assumption Agreement, dated November 3, 1966, between the Company and Chelsea Hall Hector Publishers.
	3(a)(1)	Certificate of Incorporation and First Amendment thereto.
	3(a)(2)	Amendment to Certificate of Incorporation.
	3(b)	By-laws of the Company, as amended.
	4(a)	Specimen of Common Stock certificate.*
	4(b)	-41/2% Sinking Fund Debenture, due January 31, 1983.
	5	—Qualified Stock Option Plan of the Company.
	6	-Opinion of Messrs. Royall, Kocgel & Wells.*
	7	—Inapplicable.
	8	—Inapplicable.
	9	Inapplicable.
	10	Inapplicable.
	11	—Inapplicable.
	12	-None.
	13(a)	-Employment contract with Harold Steinberg.
	13(b)	-Employment contract with Jack Oppenheim.
•	13(c)	-Employment contract with Robert Hector.
	13(d)	- Employment contract with Andrew E. Norman.
	13(e)	- Employment contract between University-At-Large Programs, Inc. and Arthur M. Schlesinger, jr.
	13(f)	-Agreements with Fred L. Israel.
	13(g)	-Contract with Random House, Inc. for distribution of consumer books.
	13(h)	-Contract with Random House, Inc. for distribution of The 1897 Scars Roebuck Catalogue.
	13(i)	-Contract with Random House, Inc. for distribution of Jack Johnson is a Dandy:  An Autobiography.
	13(j)	-Master agreement with Sterling Movies, Inc. for distribution of 16 mm. films.
	13(k)	-Agreement with Sterling Movies, Inc. for distribution of two 16 mm. films.
	13(1)	-Letter modifying 13(j) and 13(k).
	13(m)	-Contracts with McGraw-Hill Book Company for distribution of multi-volume reference works.
	13(n)	-Agreement with R. R. Bowker for distribution of books, and modification thereof.
	13(o)	-Lease dated December 28, 1967 for office space at 70 West 40th Street.
	13(p)	-Lease dated December 26, 1968 for office space at 70 West 40th Street.
	13(q)	-Agreement dated June 16, 1969 with Chemical Bank.
	13(r)	-Agreement dated May 7, 1968 with Film Video Releasing Corporation.
	13(s)	-Stock agreement with Leon Friedman.
	13(t)	-Stock agreement with Fred L. Israel.
	13(u)	-Stock agreement with Jeffrey Steinberg.

13(v)

—Assignment and Assumption Agreement dated May 6, 1968 between Universityat-Large Programs, Inc. and Monte Ghertler.

<sup>\*</sup>To be supplied by amendment.

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Subject to the terms and conditions of Section 15(d) of the Securities Act of 1934, the undersigned registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents, and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that section.

The registrant undertakes to deregister any shares of Common Stock registered hereby which remain unsold at the termination of this offering.

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 7 day of July, 1969.

CHELSEA HOUSE PROCESTIONAL COMMUNICATIONS, INC.

By Correct (Cocare)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
Harold Steinberg	Principal Executive Officer, President, Director	July 7 (, 1969
Robert Hector	Chairman of the Board, Treasurer	July 7%, 1969
Jack Oppenheim	Vice President, Director	July 177, 1969
Andrew E. Norman	Vice President, Director	July / 1969
Stephen Wise	Vice President, Director	July) (, 1969
Jeffer Andly Jeffrey Steinberg	Vice President	July / 1969
Stuart A. Jackson	Secretary and Director	July 🏑 1969
Arthur M. Schlesinger, jr.	Director	July 2 1969
Fred L. Israel	Director	July 71, 1969

To the Board of Directors of Chelsea House Educational Communications, Inc.

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The examination referred to in our opinion dated July 25, 1969 which appears in the Prospectus constituting part of this Registration Statement on Form S 1, included an examination of the supporting schedules for the ten months ended October 31, 1966 and two years ended October 31, 1968 listed under Item 31(a) of this Registration Statement. In our opinion such supporting schedules present fairly the information required to be set forth therein, in conformity with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & Co.

New York, N.Y. July 25, 1969

#### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our opinion dated July 25, 1969 relating to the consolidated financial statements of Chelsea House Educational Communications, Inc. and its subsidiary company, which appears in such Prospectus, and of our opinion dated July 25, 1969 on the supporting schedules, which appears in the Registration Statement. We also consent to the reference to us under the headings "Consolidated Statement of Operations" and "Experts" in such Prospectus.

PRICE WATERHOUSE & Co.

New York, N.Y. July 29, 1969

#### CONSENT OF COUNSEL

The consent of Royall, Koegel & Wells, counsel to the Company, to the use in the Registration Statement and Prospectus of their name under the caption "Legal Opinions", and to the filing of their opinion as Exhibit 6 to the Registration Statement, is contained in such Exhibit.

New York, N. Y. July 29, 1969

## CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. AND SUBSIDIARY COMPANY

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## FURNITURE AND FIXTURES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Classification	Balance at beginning of Period	Additions at Cost	Balance at close of Period
Six Months Ended April 30, 1969 (Unaudited)  Furniture and Fixtures  Equipment  Leasehold Improvements	\$ 7,266 227 666 \$ 8,159	\$ 4,736 1,886 536 \$ 7,158	\$ 12,002 2,113 1,202 \$ 15,317
Year Ended October 31, 1968  Furniture and Fixtures  Equipment  Leasehold Improvements	\$ 387 ————————————————————————————————————	\$ 6,879 227 666 \$ 7,772	\$ 7,266 227 666 \$ 8,159
Year Ended October 31, 1967  Furniture and Fixtures		\$ 387 \$ 387	\$ 387 \$ 387
Ten Months Ended October 31, 1966	None		None

## CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

## RESERVE FOR DEPRECIATION OF FURNITURE AND FIXTURES EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Classification	Balan begin of Pe	nin;	Char	itions ged to nings	cle	ance at ose of eriod
Six Months Ended April 30, 1969 (Unaudited)  Furniture and Fixtures  Equipment  Leasehold Improvements	\$	452 23 61 536	\$	482 105 80 667	*	934 128 141 1,203
Year Ended October 31, 1968  Furniture and Fixtures  Equipment  Leasehold Improvements	\$	39 — — — — 39	\$	413 23 61 497	\$	452 23 61 536
Year Ended October 31, 1967  Furniture and Fixtures			\$	39	\$	39
Ten Months Ended October 31, 1966	.==	None			=	No

#### Plaintiff's Exhibit 3

Securities and Exchange Commission Form S-1, Registration Statement for Chelsea House Educational Communications, Inc., with handwritten comments

7071-June 23, 1969-D

Ad Press-CA 6-4972

As Filed with the Securities and Exchange Commission as of Line 27, 1969

Registration Statement No.

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Chelsea House Educational Communications, Inc.

(Exact name of Registrant as specified in charter)

70 West 40th Street

New York, New York 10018

(Address of principal executive offices)

MR. HAROLD STEINBERG

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

70 West 40th Street

New York, New York 10018

(Name and address of agent for service)

Copies to:

STUART A. JACKSON, Esq. ROYALL, KOEGEL & WELLS 200 Park Avenue

New York, New York 10017,

STEPHEN F. SELIG.

BAER & MARKS. 70 Pine Street

ew York, New-York 10005

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

#### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, \$.01 par value	200,000 shs.	\$10.00	\$2,000,000	\$400

<sup>(1)</sup> Estimated solely for the purpose of calculating the registration fee.

Issuable unen experience Marrants

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The Registrant hereby amends this Registration Statement on such dates as may be necessary to delay its effective date until the Registration shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of The Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

## CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

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Cross Reference Sheet Filed Pursuant to Rule 401(c) Showing Location in Prospectus of Information Required to be Included by Items 1 Through 21 of Form S-1

Item Number and Heading	Caption in Prospectus
1. Distribution Spread	Cover Page
2. Plan of Distribution	Cover Page, Underwriting Nature of
3. Use of Proceeds to Registrant	Use of Proceeds
4. Sales Otherwise Than For Cash	· Shock
5. Capital Structure	Capitalization
6. Summary of Earnings	Statement of Consolidated Earnings
7. Organization of Registrant	The Company
8. Parents of Registrant	Principal Shareholders
9. Description of Business	Business
10. Description of Property	Business (Property and Employees)
11. Organization Within Five Years	The Company, Certain Transactions
12. Pending Legal Proceedings	Pandung
13. Capital Stock Being Registered	Description of Securities
14. Long-term Debt Being Registered	
15. Other Securities Being Registered	
16. Directors and Executive Officers	Management and Control
17. Remuneration of Directors and Officers	Management and Control (Remuneration)
18. Options to Purchase Securities	Management and Control (Qualified Stock Option Plan), Underwriting
19. Principal Holders of Securities	Principal Shareholders
20. Interest of Management and Others in Certain Transactions	Certain Transactions
21. Financial Statements	Statement of Consolidated Earnings, Balance Sheet, Consolidated State- ments in Excess of Par Value and Retained Earnings
*Omitted because inapplicable or the answer is negative.	- [ 31 Cup. lal ].

PROSPECTUS

180,000 SHARES - 14'6,4-64

## Chelsea House Educational Communications, Inc.

Common Stock

(Par Value \$.01 per share)

Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price has been determined by egac mentubetween the Company, and the Underwriters.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)
Per Share	-5	· (1)	(10) " " " " " " " " " " " " " " " " " " "
Total (3) Minimum	\$ \$	E 247	\$ 100

(1) For information concerning additional compensation to and certain other rights of Herzfeld & Stern with respect

(2) Before deduction of additional filing, printing, legal, accounting and miscellaneous expenses of approximately (\$. minimum to \$. maximum per share), which the Company must pay in connection with this

offering.

(3) In order to cover over-allotments, if any, in the sale of the 180,000 shares offered hereby, the Company has granted to the Underwriters the right to purchase at the same price a maximum of 20,000 additional shares of Common Stock which the Underwriters will offer thereby at the above public offering price if such right is exercised (see

This offering involves:

(a) Special risks concerning the Company. For information concerning such risks, see "Introductory Statement", page 3.

(b) Immediate substantial dilution of the rok value of the stock from the public offering price. For information concerning such dilution, see page 4.

through the purchase by it, for \$100, of non-transferable (except to and among partners and employees of Herzfeld & Stern) Warrants to purchase 20,000 shares of Common Stock of the Company at 110% of the above per share price to public, exercisable for a period of four years commencing one year after the date of this Prospectus, and (2) to the Underwriters through the grant of an option to purchase, within thirty days from the date of this Prospectus, up to 20,000 additional shares of Common Stock at the per share price to the public less the underwriting discount, solely for the purpose of covering over-allotments. For information concerning these Warrants and such option, see "Underwriting," page 15.

At the Company's request, the Underwriters have agreed to reserve up to 25,000 of the shares offered hereby for sale at the public offering price to certain persons, including employees and business associates of the Company and friends and relatives of management. Accordingly, the number of shares available for offering to the general public will be reduced by the number of shares, if any, purchased by such persons.

The above shares of Common Stock are being offered by the Underwriters when, as and if-received and accepted by them, subject to prior sale and to withdrawal of such offer without notice, and subject to the approval of certain legal matters. It is expected that delivery will be made at the office of Herzfeld & Stern, 30 Broad Street, New York, N. Y. 10004, on or about 1969.

## Herzfeld & Stern

The date of this Prospectus is

, 1969.

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The Company is offering hereby up to

200,000 shares of its Common Stock at a price to the

public of \$\_\_\_\_\_\_ per share. The nature of the

Company's offering is such that unless subscriptions

for at least 100,000 shares of the Common Stock of

the Company are received on or before

1969, the Company will not sell any such shares.

(See "Method by Which the Stock is to be Sold").

Accordingly, the aggregate amount to be paid by the

public for the minimum of 100,000 shares to be issued

pursuant to this offering will be \$\_\_\_\_\_, and

the aggregate amount to be paid for the maximum

amount of 200,000 shares will be \$\_\_\_\_\_,

The shares will be sold directly by officers, directors and employees of the Company (who will receive no discount or commission for their efforts), and may also be sold through brokers-dealers. There is, however, no arrangement with any broker-dealer to sell any of the Common Stock offered hereby. To the extent that shares are sold through broker-dealers, the Company will pay the ordinary and usual commissions charged for transactions in the over-the-counter market, which are estimated at \$\_\_\_\_\_\_ per hundred shares.

Based upon the foregoing, assuming that all of the Common Stock issued pursuant to this

Charles of the second

prospectus was sold by officers and directors,

to whom no discount or commission would be
allowed or paid, the Company would receive net

proceeds of from \$ (if 100,000

shares were issued) to \$ (if 200,000

shares were issued). Assuming that all such
shares issued were sold through broker-dealers,

the Company would pay commissions ranging from

\$ (if 100,000 shares were issued)

to \$ (if 200,000 shares were issued),

receive gross proceeds in the same amount as set forth above but \$\_\_\_\_\_\_(if 100,000 shares were issued)

to \$\_\_\_\_\_\_(if 200,000 shares were issued),

and would receive net proceeds of from \$\_\_\_\_\_

to \$\_\_\_\_\_. In the event that less than

100,000 shares were sold by the Company, the

Company could nevertheless have incurred brokerage

commissions of up to \$\_\_\_\_\_. In addition,

the Company will incur expenses with respect to

this offer (other than brokerage commissions)

estimated at \$\_\_\_\_.

Officers, directors, employees and broker-dealers who engage in the sale of the Common Stock may be deemed to be underwriters as defined in the Securities Act of 1933.

Rider A-X-X

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in the Registration Statement containing the Prospectus. If given or made, such representations must not be relied upon as having been authorized by the Company or the Underwriter. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any State in which such offer, solicitation or sale is unlawful.

Until , 1969 (90 days following the date of this offering) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

TABLE OF CO	ONTENTS	
Natura of the Mer of Comman Appel	- Bul cars	PAGE
The Company	Management and Control	
Introductory Statement	Qualified Stock Option Plan	· (co Non
Use of Proceeds	Certain Transactions	· / 86 2: paig.
Dividends	Description of Securities	\ /
Capitalization	Due January 31, 1983	
Statement of Consolidated Income	Common Stock	
Business	Underwriting	
Multi-Volume Reference Works	Over-allotment option	
Consumer Publications	Legal Opinions	
Educational Films	Experts	
Contributions to Gross Sales	Registration Statement	
Property and Employees	Report of Independent Accountants	Com
Competition	Financial Statements	Opinion

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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#### NATURE OF THE OFFER OF COMMON STOCK

Commencing on the date on which the Company sells the 100,000th share of stock offered hereby, it shall promptly transmit certificates for shares of Common Stock to the purchasers thereof, and will continue to transmit certificates as purchases are made, until \_\_\_\_\_\_.

THE COMPANY

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Chelsea House Educational Communications, Inc. is engaged in the publication of books and the production of films pertaining generally to the fields of history, the social sciences and the arts. Until mid-1968, all of the Company's revenues resulted from sales to the educational market of multi-volume reference works, published under the name "Chelsea House Publishers". During the past year, the Company has entered the field of hard-cover and paperback books for sale to the consumer market. In the fall of 1968, University-at-Large Programs, Inc., a subsidiary of the Company, began to market 16 millimeter sound and color educational films. In addition, the Company recently began producing a series of Super 8 millimeter film cartridges, for sale with audio-visual rear screen projectors to schools and libraries.

Most of the Company's multi-volume reference works are distributed by McGraw-Hill, Inc. and R. R. Bowker Company. Random House, Inc., has contracted to distribute the Company's hard-cover and paperback books and Sterling Movies, Inc., distributes certain of the 16 millimeter films. The Company also engages in direct mail selling of its books and films.

The Company was organized under the laws of the State of New York on November 3, 1966, as Lochsley Hall, Inc., to succeed to the business conducted by a general partnership formed in January, 1966. On \_\_\_\_\_\_\_ the Certificate of Incorporation was amended to change the name of the Company to Chelsea House Educational Communications, Inc. The Company owns 96% of the outstanding capital stock of University-at-Large Programs, Inc. The term "Company" as used herein shall be deemed to include both Chelsea House Educational Communications, Inc. and its subsidiary. The Company maintains its principal executive office at 70 West 40th Street, New York, New York 10018.

June 2.0,1901

#### INTRODUCTORY STATEMENT

In analyzing this offering, investors should carefully consider, among other factors, the following matters:

- 1. The Company is in competition in all areas of its business with a number of large book publishing and educational film production organizations, many of which have resources considerably larger than those of the Company.
- 2. Most of the Company's products are currently being distributed by major book publishing and film organizations. However, there is no assurance that in the future the Company will continue to be able to secure distribution arrangements with these or similar companies.
- 3. The Company is expanding its business into several new fields of operation, and there can be no assurance that its products in these fields will meet with market acceptance.
- 4. Many of the Company's products are sold to educational institutions which are dependent to some extent upon government subsidy for funds. There is no assurance that such government subsidies will continue in the future.
- 5. Prior to the offering made hereby, the parents of the Company owned in the aggregate 89% of the outstanding shares of Common Stock of the Company. Following this offering, they will own approximately 21% of such outstanding shares and will be in the position to elect all of the directors of, and otherwise to control, the Company.

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In the event that the Company solls have than the online 200,000 shales of freed healty, it will receive distrable to fund projects projected to be 7071 "Co 7071 6. One of the Company's publications, t' o 1897 Sears Rochuck Catalogue, contributed substantiation to the Company's sales and earnings for the finance that a ball of the contributed substantiation of the Company's sales and earnings for the finance that the contributed substantiation of the Company's sales and earnings for the finance that the contributed substantiation of the Company's sales and earnings for the finance that the contributed substantiation of the contributed s ally to the Company's sales and earnings for the five months ended-March 31, 1969. There is no assurance that this book will continue to sell as well in the future or that the Company will succeed in publishing other books which will meet with equivalent market acceptance. - the of the Company's new mee's, represents the direct and indirect costs of producing of 16 min. films. To date, the Company has realized only \$ ..... 325 rom the safe of prints of such films, and no assurance can be given that the Company will be able to sell sufficient prints torrecover such costs. APr. 1 30 Dilution The net tangible book value as of March 31, 1969 of the 699,970 shares of Common Stock of the 00,000 Company outstanding immediately prior to this offering was \$.31 per share. After giving effect to the sale of 180,000 shares of Common Stock to the public and the receipt of net proceeds of approximately, per share which would similarly be the The book value would be approximately \$ per share, and the s there will be an immediate book value of the shares purchased by the public at \$ per share in such tangible book value to the purchasers of the shares offered hereby. dilution of \$ Further dilution may occur upon the exercise-by-Herzfeld-& Sterm of Warrants-to-purchase-from the Company 20,000 shares of hits Common Stock at a price of few me per share, and upon the exercise of options granted and to be granted pursuant to the Company's Qualified Stock Option Plan (See 'Univ derwriting" and "Options"). USE OF PROCEEDS valifie The Company expects to incur costs over the next two years in the production of the following projects (see "Business"): Estimated Cost Project \$1,000,000 Multi-volume reference works (approximately 14 titles) ... Multi-subject dictionary ..... 700,000 . 300,000 Consumer books ..... 175,000 Super 8 mm. sound film cartridges ..... 16 mm. educational films (approximately 12 films) ...... 240,000 \$2,415,000 I will be received by the Company after payment of ex-Net proceeds of approximately \$\_\_\_ penses hereunder, unless the Underwriters exercise their option to purchase all or a portion of anadditional 20,000 shares (see Cover Page), in which event the total net proceeds may be as high as All of the proceeds from the sale of the Common Stock being offered hereby will initially

ranging from approximately 1 - 10 +

form part of the Company's working capital, and will be applied together with any internally generated

funds to finance a portion of the costs set forth above and for other corporate purposes.

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amortization), equal to 123% of the Company net worth on that data, represents capitalized

the Company will be able to cell or least sufficient prints to recover such costs.

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#### CAPITALIZATION

200,000

As Adjusted

The capitalization of the Company at June 30, 1969, and after giving effect to the sale of JSO,009 shares of Common Stock pursuant to this Prospectus, is as follows: 1 .-

Authorized

Sundry-Indebtedness 41/2% Sinking Fund Debenture, due January \$ 110,000 \$110,000 \$110,000 31, 1983 (1) ..... 879,970 shs.(2)(3) 699.970 shs. (2) 2.000,000 shs. Common Stock, \$.01 par value ..... Common Stock Parchase Warrant Warra purchase -- 20,000 shares.

The Debenture, held by Andrew E. Norman, an officer and director of the Company, is subordinated to all indebtedness of the Company and its subsidiaries to banks and other lending institutions

Not including 25,000 shares reserved for issuance pursuant to the Company's Qualified Stock Option Plan.

(3) Not including 20,000 shares which may be issued if the Underwriters expreise the option to cover over-allot-ments described on the Cover Page of this Prospectus, and 20,000 shares reserved for issuance upon the exercise of Herzfeld & Stern's Warrant (see "Underwriting").

With respect to the Company's obligations under long-term leases, see "Property and Employees", and Note / of the Notes to Consolidated Financial Statements.

References in this prospectus to number of shares of the Common Stock of the Company have been adjusted for a 1879.25-for-1 split on , 1969.

#### **DIVIDENDS**

On May 24, 1967, the Company declared a dividend on its Common Stock in the amount of \$.06 per share.

The Company has not declared any dividends on its Common Stock since May 24, 1967. It has been the Company's policy to utilize earnings to finance its growth and it is anticipated that the Company will continue to do so. Furthermore, under the terms of its 41/2% Sinking Fund Debenture due January 31, 1983, the Company may not pay cash dividends on its Common Stock prior to November 1, 1971, and may not thereafter pay cash dividends unless sinking fund obligations or other specified payments with respect to the debenture have been satisfied (see "Description of Securities").

- (1) See Description of Securities herein
- (2) And installment in the amount of \$ 13,800 Lue May 1, 1969 has been contested and has not boon paid. See "Panding Litigation" and "Business -- Educarional Films" herei

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BUSINESS

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The Company is engaged in the publication of books and production of films for sale primarily to libraries, colleges and schools. Until mid-1968, all publications sold by the Company were multi-volume reference works published under the name "Chelsea House Publishers", which product still accounts for a large percentage of the Company's sales and earnings (see " " herein). In July 1968, the Company began the publication of hard-cover books for the consumer market, and revenues from the sale of one of the Company's hard-cover consumer books contributed substantially to the Company's gross sales during the five months ended March 31, 1969. The Company has also recently developed a series of film cartridges and a series of 16 millimeter films for distribution primarily to the educational market, and is preparing a line of paperback consumer books expected to be ready for distribution by Fall 1969. april 30

Multi-volume Reference Works

General

The Company's multi-volume reference works are typically designed to make available to students, teachers and researchers in one collection, widely dispersed documents, interpretive and analytic essays, and other materials, indexed and placed in historical context by leading authorities. As at June 30, 1969, the Company had published, under the name "Chelsea House Publishers", a total of seven multivolume reference works dealing with various subjects pertaining to the social sciences, particularly in the fields of history, law and the judicial process. The works range from two to five volumes, and from 760 to 3,264 pages in length, and from \$27.50 to \$125 per set in retail price. Such works generally consist of either (1) a collection of documents pertaining to a specific subject, edited and with text by recognized authorities on the subject or (2) a collection of essays (supplemented, in some cases, with documentary material) on a particular subject by authorities under contract with the Company specifically for the work, and edited by a recognized authority.

The seven titles currently being marketed are:

Title	Authored or Edited by	Introductory Essay and/or Editorial Supervision by
The State of the Union Messages of the President 1789-1966 (3 vols.)	Fred L. Israel	Arthur M. Schlesinger, Jr.
Major Peace Treaties of Modern History (4 vols.)	Fred L. Israel	Arnold Toynbee
Messages and Papers of Jefferson Davis and the Confederacy (2 vols.)	James Richardson	Allan Nevins
The History of British India (4 vols.)	James Mill	John Kenneth Galbraith
The Documentary History of Banking and Currency (4 vols.)	Herman Kroos	Paul A. Samuelson
The Justices of the U. S. Supreme Court, 1789- 1969: Their Lives and Major Opinions (4 vols.)	Leon Friedman, Fred L. Israel	Louis H. Pollak
Statutory History of the United States (first 4 vols. in series)	Bernard Schwartz, Robert Stevens, Robert F. Koretz	

In addition to titles currently in publication, the Company has entered into contracts with editors or authors for the publication of eleven additional multi-volume titles, eight of which are expected to be ready for distribution between the winter of 1969 and the spring of 1970, including the following representative titles: Documentary History of U. S. Conservation (5 vols.), History of Presidential Elections (4 vols.), Documentary History of U. S. Foreign Policy: 1945-1970 (5 vols.), Major Documents of British History: 1688-1970 (4 vols.), Documentary History of the Third Reich: 1932-1945. (4 vols.), and Foundations of Quantum Physics (3 vols.).

The Company is also undertaking publication of a basic defining reference source on all the social science disciplines, including sociology, psychology, economics, historiography, statistics, archaeology, and anthropology, to be entitled the Encyclopaedia of the Social Sciences. The title is expected to be completed in an approximate cost of \$700,000.

#### Publication -

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The Company undertakes all steps necessary to deliver "camera-ready copy" (i.e., the manuscript in either page-proof or film form ready for manufacture) of each multi-volume reference work which it publishes. The Company selects the title, hires the editor and authors, acquires and organizes the materials for the manuscript, and handles the details of preparing the manuscript, including the copyreading, proofreading and typesetting. Editors and authors are generally paid by the Company on a fee, rather than a royalty, basis. The time required in preparing a manuscript has ranged from three to twenty-four months.

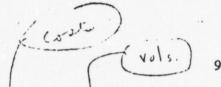
With certain exceptions, the manufacture and distribution of the books and related advertising or sales promotion are undertaken and paid for by other publishing houses who have agreed to distribute the books. In the case of certain titles, the Company's production costs are financed by advances from such distributors (see "Distribution" herein.)

#### Distribution

The Company's multi-volume reference works are sold primarily to colleges, schools and libraries. Of the seven multi-volume reference book titles which are presently being sold, four are being distributed pursuant to contracts with either McGraw-Hill, Inc. ("McGraw") or R. R. Bowker Company ("Bow-ker"). Two other titles were bought outright by Bowker and the seventh is being distributed by the Company through direct mail sales. Furthermore, the Company currently has contracts with McGraw for the distribution of four additional reference titles, which are in various stages of preparation.

Under its arrangements with McGraw, the Company enters into a separate contract with respect to the publication and distribution of each title accepted by McGraw. These contracts require the Company to deliver camera-ready copy to McGraw by a certain date. McGraw is given sole distribution rights to the title, and is required to manufacture and distribute the title at its own expense. Typically, McGraw makes an advance payment for the right to distribute a certain number of copies, payment being made as follows: (1) an amount upon the signing of the contract, (2) a progress payment, and (3) a sum upon delivery of the copy. In event of default in delivery of the camera-ready copy, such advances would be required to be returned. McGraw has the right to require revision of the copy. As to any books distributed by McGraw above the number covered by the advance payment, the Company receives 50% of McGraw's net profits (as defined in the contracts) from the sale of the books.

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Under the Company's arrangements with Bowker, Bowker undertakes the manufacture and promotion of the title which it is distributing (The Instices of the U.S. Supreme Court, 1789-1909: Their Lives and Major Opinions, 4 vols), and pays all costs of editorial production, manufacture, distribution and advertising. The net receipts from the sale of the title will be applied to reimburse Bowker for its editorial production, manufacturing, distribution and advertising costs, and thereafter the Company will receive 50% of the company met profit.

Since distribution contracts with McGraw and Bowker are entered into on the basis of individual projects, there can be no assurance that any of the Company's future projects will be accepted by either of them for distribution, or that the relationship with either or both of them will continue. Since at the present the Company has no sales force, if the arrangements were discontinued, the Company would either attempt to secure an arrangement with other publishing firms or undertake the distribution itself through direct mail distribution and/or by creating a sales force.

#### Consumer Publications

The Company began publishing hard-cover books for sale to the consumer market with the introduction of The 1897 Sears Roebuck Catalogue in July 1968. As of June 30, 1969, the Company had sold 105,000 copies of that title. Between late May and mid-July 1969, the Company published the following four additional titles, for which no sales figures are currently available: Jack Johnson is a Dandy: An Autobiography; The Warren Court: A Critical Analysis; Argument: The Complete Oral Argument Before the Supreme Court in Brown v. Board of Education of Topcka; and The Handbook of Gasoline Automobiles, 1904. Three additional titles (The Drawings of Claes Oldenburg, The Drawings of Roy Lichtenstein and The Alpine Affair—a suspense novel) are in preparation and are scheduled to be published in the Fall of 1969.

The Company undertakes all the steps in the preparation and manufacture of such books, from selection of topics through printing and binding the book (the printing and binding is handled for the Company on a contract basis by various printing houses). The Company itself initially handled distribution of its first consumer publication through solicitation of mail orders. However, since that book and the remainder of its hard-cover consumer books currently being sold are, and future hard-cover consumer books will be, distributed pursuant to a contract with Random House, Inc. Under the contract, the Company pays a commission based upon the amount billed to retailers plus a percentage of the amount of credits on books returned to the Company. In addition, Random House makes advance payments against anticipated distribution revenues. The contract terminates on

The Company is in the process of preparing a line of paperback books to be published in Fall 1969. The books will deal with a broad range of subjects and will be sold to the consumer market at retail prices ranging from \$1.95 to \$2.95. Pursuant to the above described contract with Random House the Vintage Books division of Random House will distribute, under the name "Chelsea House/Vintage", all of the Company's paperback consumer titles. In addition, the Company may sell certain of such titles through direct mail and advertising solicitation.

Random House will receive, as a distribution commission, a percentage of the amount billed to the retailer. As at June 30, 1969, five titles were in preparation for distribution by Vintage (Random House).

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### Educational Films

Film Cartridges: The History Machine

As at 1969, the Company had produced approximately Super 8 mm. sound film cartridges dealing with significant historical events of the 20th Century, and directly related to the study of American history for that period. The films are from five to seven minutes in length and are designed to be used with a "rear screen projector", which is a small machine resembling a television set in appearance, and which is readily adaptable to classroom use. The Company currently effers forty such cartridges and a Fairchild Mark IV Projector for a total price of \$2,280. The Company is marketing this product under the name "The History Machine". The films can be produced in other types of cartridges for showing on rear and/or front screen projectors of other makes and on video tape. The Company is currently conducting negotiations with several firms with respect to the distribution of its film cartridge package to the educational and institutional market.

The Company has begun work on a similar series of sound film cartridges covering European history and expects to have produced fifty cartridges on that subject by Spring 1970. The Company is also planning to produce additional cartridges in the American history series and on poetry and other subjects.

16 Millimeter Films: University-at-Large Programs, Inc.

Through its 96%-owned subsidiary, University-at-Large Programs, Inc. ("University"), the Company produces 16 mm. sound color films for lease and sale to the educational market. The films are generally 30 minutes in length, are in color and have a synchronous sound track. Each film features a recognized authority in a field such as drama, literature, the arts, and social sciences or history, who presents a major thesis, argument, or analysis of his field. University enters into contracts under which the Company pays each authority a retainer and a royalty. General direction of the program is exercised by University's president, Arthur M. Schlesinger, Jr. The production of the films is carried out by independent film makers under contract to University, and under University's supervision. University owns all rights to the films.

As at June 30, 1969, the Company had produced nine such films, entitled John Kenneth Galbraith: The Idea of the City; Marshall McLuhan: Picnic in Space; Arthur Schlesinger: Roots of the Cold War; Harold Clurman: Ideas on the Theatre; Jerome Bruner: What Makes Man Human; Jerome Bruner: A Time for Learning; Growing Up; Buckminster Fuller: Man and the Universe; and Josef Albers: Homage to the Square. The films are sold at a retail price of \$360, and are leased at a rate of \$40 per showing.

Initially the Company rented and sold the films through direct-mail solicitation. On December 9, 1968 the Company entered into a contract with Sterling Movies, Inc. ("Sterling") under which Sterling was granted the exclusive right to distribute two of the above films to educational institutions in the United States, with Sterling to receive a commission based on the retail sales or large price. Under the contract, Sterling pays all the costs incurred in the distribution of the films and guarantees the purchase of the first 200 prints of each film accepted by it. The Company is presently negotiating with Sterling with respect to the distribution rights to the other seven films which the Company has produced. As at March 31, 1969.

The minority shareholder of University has a right to 2% of the net profits after taxes of University.

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[ Lower part of previous page of exhibit]

Leverel that Nonversity has plediged two such films, and revenues derived therefore pursuant to its contract with Steeling Mourss, Inc. deverbod below, to a bank to secure represent to a note in the amount of 160,000.

See Description of Securities,"

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F. Im L. brand Company acquired a stock film library for a price of \$58,800, \$17,100 of which of the

On May 17, 1968, the Company acquired a stock film library for a price of \$58,800, \$17,100 of which has been paid. The library contains approximately 7 million feet of film dealing with news events and other historical subjects. The Company has not atilized the library as yet; but intends to use the films as a resource for its 8 mil. film cartridge and 16 mm. film reel programs.

Contributions to Gross Sales

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During the two fiscal years ended October 31, 1968 and the five months period ended March 31, 1969, the gross sales of the Company from its various spheres of operation were as follows:

.1:: 11.			Year Ended	october 31	Pive Months Ishaco	
leaged to	13	(No. 139)	1967	1968	-Mareir 31, 1969	
\	; ;	(111)				
went of the )	Multi-volume reference	works	-229,700	\$277,200	238,000	
See also "Pentito	Consumer publications		-0-	24 6,300	567,000	
-itigation"	Film cartridges		-0-	-0-	-0-	
Lacising.	16 mm. films		·-a-	11,900	180,400	

Property and Employees

The Company occupies approximately 6,000 square feet of office space on 1.0 floors at 70 West 40th Street, New York City, under two separate leases, both extending to January 1, 1976. The monthly rental is \$3,420 and will increase to \$3,600 in 1970, and to \$3,800 in 1972.

As at June 30, 1969, the Company employed thirty full-time employees, of whom eight are executive personnel, nine editorial personnel, five film personnel and eight clerical personnel. In addition, approximately 150 free-lance contributors and editorial personnel were under contract to the Company as at June 30, 1969, for work on specific projects of the Company. There are no collective bargaining contracts in force for any of the Company's personnel.

#### Competition

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8 mm

All areas of the Company's business are highly competitive. At least ten major publishers, each with financial resources considerably larger than those of the Company, publish multi-volume reference works that are encyclopedic in scope. In addition, numerous other companies, many of which have financial resources considerably larger than those of the Company, publish encyclopedias of ten volumes or over. There are more than sixty publishers of hard-cover books for the consumer market and at least fifty publishers of paperback titles, many of which have financial resources considerably larger than those of the Company. Increasing numbers of producers are offering sound super 8 mm. cartridges to educational institutions and libraries, although, at the present time, there is no competing series of substantially similar material. In the field of 16 mm. educational films the Company competes with numerous firms which offer films of this kind to the educational market. In addition, at least five major publishers have been producing, on a long-term basis, documentary and/or educational films for the educational and institutional market. Many of such firms and publishers have financial resources considerably larger than those of the Company.

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#### MANAGEMENT AND CONTROL

The directors and executive officers of the Company are:

Name	Position and Office
Harold Steinberg	President and Director
Robert Hector	Chairman of the Board, Treasurer and Director
Jack Oppenheim	Vice President and Director
Andrew E. Norman	Vice President and Director
Stephen Wise	Vice President and Director
Jeffrey Steinberg	Vice President
Stuart A. Jackson	Secretary and Director
Arthur M. Schlesinger, jr	Director
Fred L. Israel	Director

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Mr. Harold Steinberg has been president of the Company since its incorporation in October 1966, and from 1965 until that date was a partner in the Company's predecessor. For more than five years prior thereto he was public relations director of the American Jewish Committee and Commentary magazine. He also has held positions as journalist, film scriptwriter, speech writer and producer. Mr. Steinberg attended City College of New York, Brooklyn College and the New York University School of Law.

Mr. Robert Hector has been Chairman of the Company since its incorporation in October 1966, and from 1965 until that date was a partner in the Company's predecessor. From 1964 to 1966 Mr. Hector worked in the theater as a business manager and a press agent. He has also contributed articles to magazines and worked on editorial projects with Crown Publishing Company and Grosset & Dunlap, publishers.

Mr. Jack Oppenheim joined the Company's predecessor as a partner in September 1966, and has been a Vice President of the Company since October 1966. Mr. Oppenheim was a practicing attorney from 1958 through September 1966, and is a graduate of the Harvard Law School.

Mr. Andrew E. Norman has been a Vice President of the Company since December 21, 1968. Prior thereto he was associated with the United States Office of Economic Opportunity, Community Action Program, 1966-1968; and was Associate Editor of Current magazine, 1960-1965. Mr. Norman is also a Director of Abacus Fund, Inc.

Mr. Stephen Wise has been employed by the Company since October 1968 and was elected Vice President on June 13, 1969. For more than five years prior thereto, he was a Vice President of Commodity Chartering Corporation, an owner, charterer and broker of seagoing oil tankers and dry cargo ships, and also Director of Chartering for all subsiliary companies of Seatrain Lines, Inc. He is a member of the Board of Directors of Volume Merchandise.

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Mr. Jeffrey Steinberg has been employed by the Company since December 1967 and was elected a Vice President of the Company on June 13, 1969. Prior to that, he was managing editor of Hullabaloo magazine, editorial director of New York Scenes and a contributor and free lance writer for a number of magazines. He attended the University of Pittsburgh and New York University.

... 12 V Mr. Stuart A. Jackson was elected Secretary of the Company on June 13, 1969. He has since 1957 been associated with or a partner of the New York law firm of Royall, Koegel & Wells, general counsel to the Company.

Mr. Arthur M. Schlesinger, jr. has held the Albert Schweitzer chair of Humanities at City University since September 1967. Prior to that he was Professor of History at Harvard University, and was advisor to Presidents John F. Kennedy and Lyndon B. Johnson, 1961-1964. He has twice won the Pulitzer Prize and is the author of numerous books on contemporary affairs and American history, including The Age of Jackson, The Age of Roosevelt and A Thousand Days.

Dr. Fred L. Israel has been a member of the Department of History at City College of New York since 1956, where he is now an Associate Professor. He holds a doctorate degree from Columbia University. Five

### Remuneration

No officer or director of the Company has received more than \$30,000 per annum in direct remuneration from the Company since its founding.

The aggregate remuneration paid during the fiscal year ended October 31, 1968 by the Company to all officers and directors as a group ( persons) was \$ . No officer or director is to receive remuneration for the fiscal year ending October 31, 1969 at an annual rate in excess of \$30,000; however, see "Certain Transactions."

The Company has entered into contracts to employ Messrs. Hector, Harold Steinberg, Norman and Oppenheim as Chairman and Treasurer, President, Vice President and Vice President, respectively, commencing April 1, 1969 at a salary of \$18,000 per year until October 31, 1969, \$25,000 per year for the 12 months ending October 31, 1970, and \$30,000 per year for the 12 months ending October 31, 1971. In addition, the Company's subsidiary, University-at-Large Programs, Inc., has an employment contract with Mr. Schlesinger as described herein and certain officers and directors of the Company were issued shares of the Company's Common Stock in consideration for services rendered to the Company (see "Certain Transactions").

### Qualified Stock Option Plan

The Company has in effect a Qualified Stock Option Plan (hereinafter called the "Plan"), which became effective June 13, 1969, upon approval by the shareowners.

The Plan permits the granting of options, which are intended to be "qualified" stock options under the provisions of the Internal Revenue Code, to selected employees. An individual employee may be granted an option or options to purchase shares of Common Stock at an option price representing 100% of the market value of the Common Stock on the date upon which the option is granted. The options expire five years from the date of issuance, and may not, except in the case of termination of employment by death, be exercised after termination of employment of the option holder.

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Options may not be granted to employees owning more than 5% of the outstanding Common Stock and no option may be made exercisable earlier than one year from the date of grant thereof.

The Plan will terminate no later than June 12, 1979 and no more than 25,000 shares (subject to adjustment in certain cases, to prevent dilution) may be issued under it.

As at June 30, 1969, the only option outstanding under the Plan was an option to purchase 3,500 shares granted to Arthur M. Schlesinger, jr., a Director of the Company, which option is exercisable at \$10 per share, and expires June 12, 1974.

### PRINCIPAL SHAREHOLDERS

The principal shareholders of the Company, the amount of Common Stock owned of record and beneficially by each of them as of June 30, 1969, and the respective percentages of the outstanding Common Stock owned by each of them on June 30, 1969 and as adjusted to give effect to the 180,000 shares offered hereby, is as follows:

Name	Shares Owned	% of Class on June 30, 1969	% of Class as Adjusted
Robert Hector  Harold Steinberg  Jack Oppenheim  Andrew E. Norman  All officers and directors as a group (9 persons)	141,865(1) 147,183 180,633(2)	21.03	17.49 16.12- 16.73 20.53 17.10 17.10 16.73 20.53 17.10 17.10

Exclusive of 15,008 shares of the Company owned by his son, Jeffrey Steinberg, an officer of the Company.
 20,071 of such shares are subject to an option to purchase granted to Mr. Stephen Wise, an officer and director of the Company.

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Arthur M. Schlesinger, jr. is company and a Director of the Company of the Company of State of Substitute of the Company of the Company of the Company.

Arthur M. Schlesinger, jr. is company of the Company of the

Arthur M. Schlesinger, jr. is employed on a part time basis under a contract with the Company's subsidiary. University at Large Programs, Inc. as its president for a period of years at an annual salary of \$20,000. In addition, Mr. Schlesinger is to receive \$\theta\$ for each 16 mm. film that he makes for University-at-Large Programs, Inc. In-addition the Company, from time to time enters into contracts with Mr. Schlesinger, under which Mr. Schlesinger is retained to edit or author books for the Company. At present, Mr. Schlesinger is under contract to edit a total of three books for the Company, for which he has received or will receive an aggregate of \$19,000. In addition, Mr. Schlesinger has been granted an option under the Company's Qualified Stock Option Plan, to purchase 3,500 shares of Common Stock of the Company. See "Options" herein.

DESCRIPTION OF SECURITIES

41/2% Sinking Fund Debenture due January 31, 1983

On 33

1969

On December 21, 1967 the Company borrowed \$110,000 from Andrew E. Norman, an officer, director and principal shareholder of the Company, and issued Mr. Norman its 4½% Sinking Fund Debenture due January 31, 1983 (the "Debenture"). The debenture agreement requires the Company to make sinking fund installments in each year commencing with 1972 equal to the lower of \$10,000 or 5% of consolidated pre-tax profits of the Company in excess of \$50.000 for the preceding fiscal year. Under

Programs Inc. ("University") borrowed \$60,000:

From Chemical Bank and result a demand

promissory note to Chemical Bank to Chemical Bank and rate of

9/275 per annum. So The bank has agreed

that no demand shall be made for payment

of such note of so. 18 months unless

default in payment upon such autis

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payment of such note, two 16 mm films
owned by University, together with all
revenues derived their from, including a mounts
to be received from the distribution of the
wents heade with Sterling Films the
described in "Prosiness - Chambronal Films."

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Non-Cumulative Voting

The Company's Certificate of Incorporation does not provide for cumulative voting and accordingly the owners of more than 50% of the Common Stock may elect all the directors, in which event the remaining shareholders will not be able to elect any directors.

The Transfer Agent and Registrar for the Common Stock is

Reports to Shareholders

The Company intends to furnish its shareholders annual reports containing financial statements examined by certified public accountants, and also with unaudited quarterly financial statements. From time to time the Company also intends, if developments warrant, to furnish its shareholders with additional information about the Company and its operations.

### UNDERWRITING

The Underwriters named below, for whom Herzfeld & Stern is acting as Representative, have severally agreed, subject to the terms and conditions of the Underwriting Agreement (a copy of which is filed as an exhibit to the Registration Statement), to purchase from the Company the number of shares of Common Stock of the Company set forth opposite their respective names: Number

Address Name of Underwriter 30 Broad Street Herzfeld & Stern New York, N. Y. 10004

[Continue on next page ]

of Shares

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PENDING In August 1968 the Company co in The Supreme Court of the State of New York, Country of New York, seeking to rescond a contract with Filmvideo Releasing Corp. for the prochase by the Company of a Film library (see "Business - Educational Films"), on the grounds that defendant breached a warranty contained in The contract of purchase. The Company's action for resils-Sion was assuissed by the Suprome Mourt, and the Company has filed a notice of affect. The defendant Counterclaimed alleging non-pay ment of a note installment in the amount of + 13,800 Mills which was due Man 1, 1968), and the company has withheld attention payment of because of its contention that the com chase (contract should be rescinded. The Comis fundale to predict the outcome kounterclaim of defendant. of the \$13,500 installment

The Underwriters will be obligated under the Underwriting Agreement to take and pay for all of the shares offered hereby if any are purchased.

Pursuant to the Underwriting Agreement, the Company has agreed to indemnify the Underwriters and the Underwriters have agreed to indemnify the Company with respect to certain liabilities in connection with the Registration Statement, including liabilities under the Securities Act of 1933.

The Company and its principal shareholders have agreed with the Underwriters that they will not sell any shares of Common Stock of the Company, or securities convertible into Common Stock, other than the securities being offered hereby, for a period of 120 days after the date of this Prospectus without the consent of the Representative.

The Company and its principal shareholders have agreed to give the Representative the right of first refusal for a period of five years with respect to any distribution or sale of any securities by the Company or Common Stock owned by its principal shareholders.

The Company has agreed to issue to Herzfeld & Stern warrants (the "Warrants") to purchase 20,000 shares of the Company's Common Stock at a price 10% above the public offering price of the Common Stock, exercisable for a period of four years commencing one year after the effective date of the Registration Statement. The Warrants are non-transferable except to or among partners or employees of Herzfeld & Stern. Herzfeld & Stern has represented to the Company that no public offering of the shares underlying the Warrants is now contemplated. However, in the event any disposition of such shares requires taking further action under the Securities Act of 1933 (the "Act"), the Company has agreed to allow such shares to be included in any registration statement the Company may otherwise file under the Act, and upon request in certain circumstances, to file two registration statements under the Act covering such shares and to pay the expenses in connection with one of said registration statements.

For the life of the Warrants, the holders are given, at a nominal cost, the opportunity to profit from a rise in the market for the Company's Common Stock, with a resulting dilution in the interest of the shareholders. During the term of the Warrants, the Company may be deprived of favorable opportunities to procure additional equity capital, if it should be needed for the purposes of the business, and the holders of the Warrants may be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain equity capital, if then needed, by sale of a new offering on terms more favorable than those provided in the Warrants.

### Over-allotment Option

The Company has also granted the Underwriters the right at any time for a period of 30 days after the date hereof to purchase up to 20,000 additional shares of Common Stock at the same price per share as is being paid by the Underwriters for the 180,000 shares of Common Stock that they have agreed to purchase. The Underwriters may exercise such right only to cover over-allotments in the sale of the 180,000 shares offered hereby. To the extent that the Underwriters exercise such right, they will have a firm commitment, subject to certain conditions, to purchase such shares, and the Underwriters will make a public offering of such additional shares on the same terms as those on which the 180,000 shares are being offered. If the Underwriters exercise their right in full, the total number of shares that will have been offered by the Underwriters will aggregate 200,000.

It is anticipated that, the Underwriters will confirm sales of up to 200,000 shares of the Company's Common Stock, with the result that the Underwriters will have a short position up to the 20,000 shares purchasable under the above option. During the thirty day term of the over-allotment option, the

- Line of the offering made hereby,

Underwriters will have the opportunity of purchasing shares of Common Stock in the open market to cover such short position or to exercise the option to purchase shares of Common Stock at the price to the Company shown on the cover page. Accordingly, regardless of the market price of the shares of Common Stock of the Company subsequent to the date of this offering and prior to the expiration of the option, certain of the market risks associated with an offering of securities will have been substantially reduced; the Underwriters will be protected from risk of loss on up to 20,000 shares overallotted because of their ability to purchase up to 20,000 shares at the net price to the Company; and if the market price should decline substantially below the public offering price the Underwriters will have an opportunity to realize additional profits (underwriting compensation) which might be substantial should they elect to cover their short positions by purchasing all or part of the required shares of Common Stock in the market at a price below the net price to the Company shown on the cover page, which is the over-afforment option exercise price.

As indicated above, the purpose of the over-allotment option is to protect the Underwriters against risks associated with the over-allotment as set forth in the preceding paragraph, and any benefits to the Company from the grant of this right are incidental.

### LEGAL OPINIONS

Legal matters in connection with the securities offered by the Underwriters are being passed upon for the Company by Messrs. Royall, Koegel & Wells, 200 Park Avenue, New York, New York, and for the Underwriters by Messrs. Baer & Marks 70 Pine Street, New York, New York

# SIX EXPERTS

The financial statements included in this Prospectus and the schedules included in the Registration Statement, except as they relate to the five-month periods ended March 31, 1967 and March 31, 1968, have been examined by Price Waterhouse & Co., independent accountants, whose opinions thereon appear herein and elsewhere in the Registration Statement, and have been included by the Company in reliance on the opinion of such firm and on their authority as experts in auditing and accounting.

## REGISTRATION STATEMENT

The Company has filed a Registration Statement (No. 2- ) relating to this offering. This prospectus omits certain information contained in the Registration Statement as amended, on file with the Securities and Exchange Commission at its principal office in Washington, D. C.

Strack A. Jackson, Eig. o member of the form of Royall, Kozyelk. Wells, is an officer and diruetor of the Company.

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# PART II.

INFORMATION NOT REQUIRED IN THE PROSPECTUS.		
Item 22. Marketing Arrangements.	1	
Reference is made to Sections and of the Agreement Among Underwriters, Section Underwriting Agreement, Sections and of the Selling Agreement and the caption "Underwriters of the Prospectus.  Copies of the form of Agreement Among Underwriters and the form of Selling Agreement as exhibits to the Registration Statement.	1	1)
Item 23. Other Expenses of Issuance and Distribution.	- 100, -0	
*Registration Fee under Securities Act of 1933 \$ 400.00-		
Printing		
Accounting Fee		
A. Derember 27) Attorney's Fee		
Blue Sky Fees and Expenses		
Paring issued Miscellaneous		
to 4/2%, Sinking)		
*Actual. All other expenses estimated.	•	
due farment Named in Pegistration Statement		
to the Province of the Provinc	ent or in	
the Prospectus as having prepared or certified any part thereof has any interest in the registrant	t, or has	
= \$110,000, been employed on a contingent basis.		
. evidence Item 25. Sales to Special Parties.	1	\
- trust a- Item 26. Recent Sales of Unregistered Securities.	(11,269	
On November 3, 1966, the Company issued 187-925 shares of Common Stock to each of	Messrs.	
Harold Steinberg, Robert Hector and Jack Oppenheim, in exchange for assets having a value of	\$ 1	
(\$ per share). 56	Norman (1965	. 60
On December 27, 1967, the Company issued 1957238 shares of Common Stock to Andrew E. for an aggregate price of \$110,040 (\$1.05 per share).		
On June 30, 1968, the Company issued 7,517 shares of Common Stock to Fred L. Israel in for Mr. Israel's right to receive 1% of the profits of the Company.		)
On June 30, 1969 the Company issued to Messrs. Stuart A. Jackson, Jeffrey Steinberg, Friedman and Fred Israel, 12,500, 3,000, 2,000 and 5,000 shares, respectively, of its Common Stackson's shares were issued in consideration for his agreement to become Secretary and a Darkson's shares of Messrs. Steinberg, Friedman and Israel were issued in consider	irector of (5, 4	3-
services rendered to the Company. A		\
The aforementioned transactions were exempt from registration under the Securities Act or reason of Section 4(2) thereof as being transactions by an issuer not involving a public offering.	)	1
1969 the Company split its outstanding shares of Common Stor	ck on an f 1933 by	
1879.25-to-1 basis. This transaction was exempt from registration under the Securities Act of reason of Section 3(a) (9).		
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# [ Lower part of previous page of exhibit ]

Item 27. Subsidiaries of Registrant.

The Company has one subsidiary, University-At-Large Programs, Inc., a New York corporation, 96% of whose voting securities are owned by the registrant. The accounts of such subsidiary have been included in the financial statements and schedules in the Registration Statement.

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Item 28. Franchises and Concessions.

Nonc.

### Item 29. Indemnification of Directors and Officers.

Section 724 of the New York Business Corporation Law specifies the manner in which payment of indemnification to officers and directors may be authorized by the corporation. It provides that indemnification by a corporation is mandatory in any case in which a director or officer has been completely successful, whether on the merits or otherwise, in defending an action. If the officer or director has not been wholly successful or the action is settled, indemnification must be authorized by the appropriate corporate action as set forth in Section 724.

The Company and the Underwriter have entered into a reciprocal agreement whereunder the Company has agreed to indemnify the Underwriter, and the Underwriter has agreed to indemnify the Company, against certain liabilities, including liabilities under the Securities Act of 1933. Reference is made to Section. — of the Underwriting Agreement contained in Exhibit 1.

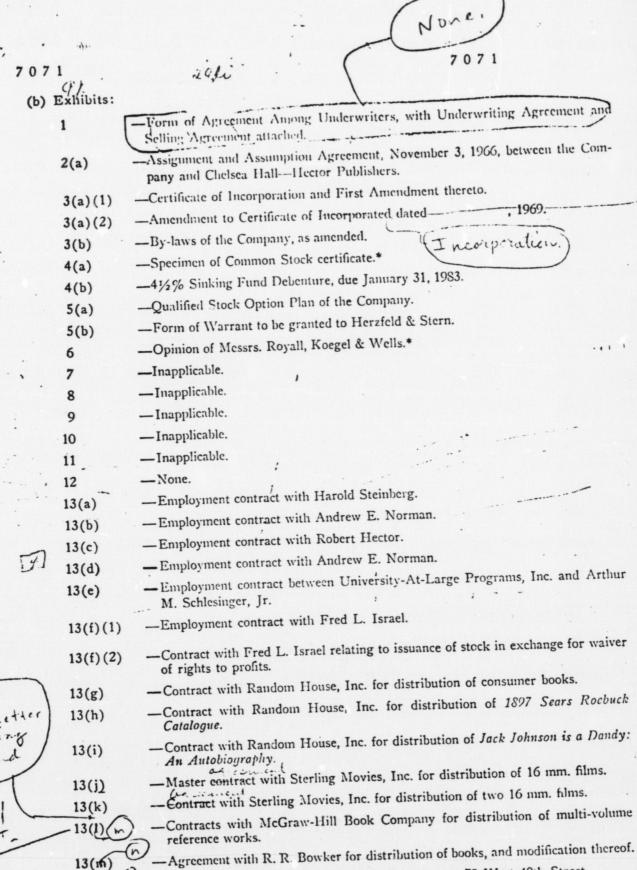
Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer, or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

# Item 30. Treatment of Proceeds from Stock Being Registered.

Of the net proceeds from the sale of the Common Stock being registered hereby, the par value of the Common Stock issued will be credited to the Common Stock account, and the excess will be credited to capital surplus.

## Item 31. Financial Statements and Exhibits.

(a) Financial Statements:



-Lease dated December 28, 1967 for office space at 70 West 40th Street.

-Lease dated December 26, 1968 for office space at 70 West 40th Street.

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# [ Lower part of previous page of exhibit ]

( -T	To be supplied by amendment.  13(q) Agreement bated June 16, 1969 with Chew	went Bunit
	13(q) Agreement dated May 17,1968 WITE Film 15(JU) agreement dated May 17,1968 WITE Film	vides le esp
	15 (N) Corporation to at the Julicon	,
	13(4) Stock agreement with Low Fredman. 13(4) Stock agreement with I call. I small	4//
	13(N) Seed agreement 11-3 1/2 Jeffring Strenderg.	
	13 (w) A seignment and Mis umption For	1 May
;	Ire. and Monta Givertler.	1.2

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#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the regist	rant has duly caused
Pursuant to the requirements of the Securities received this registration statement to be signed on its behalf by the undersignation of the Port of the Securities received the securities registration statement to be signed on its behalf by the undersignation of the securities received the securities registration statement to be signed on its behalf by the undersignation of the securities received the securities received the securities registration statement to be signed on its behalf by the undersignation of the securities registration statement to be signed on its behalf by the undersignation of the securities registration statement to be signed on its behalf by the undersignation of the securities registration statement to be signed on its behalf by the undersignation of the securities registration	ned, thereunto duly
authorized, in the City of New York, State of New York, on the	ny of June, 1969.
authorized, in the city of the	· · · · · · · · · · · · · · · · · · ·

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC

By .....(President)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
Harold Steinberg	Principal Executive Officer, President, Director	June , 1969
Robert Hector	Chairman of the Board, Treasurer	June , 1969
Jack Oppenheim	Vice President, Director	June , :1969
Andrew E. Norman	Vice President, Director	June 1, 1969
Stephen Wise	Vice President, Director	June , 1969
Jeffrey Steinberg	Vice President	June 1, 1969
Stuart A. Jackson	Secretary and Director	June , 1969
Arthur M. Schlesinger, Jr.	Director	June., 1969
Fred L. Israel	Director	-June , 1969

### UNDERTAKINGS

Subject to the terms and conditions of Section 15(d) of the Securities Act of 1934, the undersigned registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents, and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that section.

The registrant undertakes are respect to the Warrant to purchase 20,000 shares of its Common Stock to be issued by the Company and the shares issuable upon the exercise thereof, that (1) any prospectus revised to show the terms of offering of such shares and (2) any prospectus revised to comply with the requirements of Section 10(a)(3) of the Securities Act of 1933 will be filed as a post-effective amendment to the registration statement prior to any public offering thereof; and that the effective date of each such amendment shall be deemed the effective date of the registration statement with respect to securities sold-after such amendment shall have become effective. The registrant further undertakes to deregister any of such Common Shares which are not issued, by reason of the failure of the holder to exercise the Warrant prior to the expiration thereof and any of the 20,000 shares of Common Stock issuable to cover over-allotments which are not issued in accordance with the terms of the Underwriting Agreement with respect thereto.

shares of Common Stock registered hereby REPORT AND CONSENT OF ACCOUNT

# CONSENT OF COUNSEL

The consent of Royall, Koegel & Wells, counsel to the Company, to the use in the Registration Statement and Prospectus of their name under the caption "Legal Opinions", and to the filing of their opinion as Exhibit 6 to the Registration Statement, is contained in such Exhibit.

New York, N. Y. June 27, 1969

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Plaintiff's Exhibit 4
Signed Option Agreement dated April 10, 1970

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#### OPTION AGREEMENT

Option Agreement, dated as of April 10, 1970,

by and among Harold Steinberg, Harold Harris, Andrew E.

Norman, Leon W. Friedman, Stuart A. Jackson, Fred L.

Israel, Stephen-Wise, Lichard-Maybruck, Anita London,

William T. Hansen and Mary Junenfeld, shareholders of

Chelsea House Educational Communications, Inc. (hereinafter referred to as the "Stockholders"), and William Poten

(hereinafter referred to as "Optionee").

For good and valuable consideration, receipt of which is hereby acknowledged, IT IS AGREED AS FOLLOWS:

- 1. Option. Option stockholders, jointly and severally, hereby grant to the Optionee the option to purchase an aggregate of 10,964 shares of common stock of Chelsea House Educational Communications, Inc. (hereinafter called the "Company").
- 2. <u>Purchase Price</u>. The purchase price payable for such shares shall be \$3.00 per share, to be paid and prorated by the Optionee among the stockholders upon delivery of such shares, as their interests appear.
- 3. Exercise of Option. This option to purchase shall be exercisable as a whole or in part from time to time

by the Optionee on or before April 10, 1972 by notice in writing by registered mail to Royall, Koegel & Wells, c/o Stuart A. Jackson, Esq., 200 Park Avenue, New York, New York 10017. Upon the execution hereof, the stockholders will deliver certificates to Royall, Koegel & Wells, with executed stock powers are ached, for the number of shares set forth below, to be held in escrow pending the exercise of this option by Optionee:

Name of Stockhol	Number of Option Shares
Harold Steinbarg	1,096
Harold Harris	2,625
Andrew E. Norman	4,447
Leon W. Friedman	55
Stuart A. Jacks	·1,096—
Fred L. Israel	110
-Stephen Wise .	<del>-750</del> -
Richard-Maybruck	375
Anita London	. <del>150</del>
William P. Hansen	110
Mary unenfeld	. 450-

In the event that the Optionee exercises the option or any part thereof, Royall, Koegel & Wells shall deliver the certificates evidencing the number of shares as to which this option has been exercised in accordance with the procedures

described in paragraph 4 below. In the event that Optionee fails to exercise this option in full on or before April 10, 1972, Royall, Koegel & Wells shall redeliver to the Stockholders certificates representing their respective shares as to which the options have not been exercised and all rights under this agreement shall terminate without further notice. The authority granted to Royall, Koegel & Wells hereunder shall be irrevocable and may be changed or modified only by the mutual agreement of all parties in writing.

- 4. Closing. Delivery of the stock and payment of the purchase price shall take place at the offices of Royall, Koegel & Wells within 48 hours after receipt by Royall, Koegel & Wells of the notice of the exercise of the option.
- . 5. Representations. Stockholders jointly and severally represent the following:
  - a. Stockholders are the sole owners of the shares registered in their respective names and stockholders have the right to sell the shares of stock of the Company covered here.
  - b. Such shares are now and will at all times during the option period be free of all encumbrances.

- c. Optionee shall receive good and marketable title to such stock free of all encumbrances.
- 6: Benefit. This agreement shall be binding upon the parties, their heirs, their legal representatives, successors and assigns.

IN WITNESS WHEREOF, the parties have executed this agreement.

Stuart A. Jackson

Stephen Wise

Richard Maybruck

Anita London

William P. Hansen

Mary Lunenfeld

William Poten

Plaintiff's Exhibit 5

Signed Agreement dated April 7, 1970 with Exhibits attached

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THIS AGREEMENT, made the 7th day of April,

1970, by and between HAROLD STEINBERG, residing at

33 West 67th Street, New York, New York, HAROLD HARRIS,
residing at 400 Cameo Drive, Massapequa, New York,
ANDREW E. NORMAN, residing at Ludlow Lane, Palisades,
New Jersey, LEON W. FRIEDMAN, residing at 22 West 56th
Street, New York, New York, STUART A. JACKSON, residing
at Old House Lane, Sands Point, New York, FRED L. ISRAEL,
residing at 330 East 58th Street, New York, New York,
STEPHEN WISE, residing at 45 East End Avenue, New York,
New York, and RICHARD MAYBRUCK, residing at Kellogg Hill
Road, Weston, Connecticut (hereinafter referred to as
"Purchasers"), and JACK OPPENHEIM, residing at 241
Central Park West, New York, New York (hereinafter
referred to as "Seller"),

### WITNESSETH:

WHEREAS, the Seller desires to sell an aggregate of 146,183 shares of common stock of CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC., and

WHEREAS, the Purchasers desire to purchase an aggregate of 146,183 shares of common stock of CHELSMA HOUSE EDUCATIONAL COMMUNICATIONS, INC.,

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other valuable consideration the receipt of which is hereby acknowledged, the parties do hereby agree as follows:

- 1. Seller hereby agrees to sell to each of the Purchasers and each of the Purchasers, individually but not jointly, hereby agrees to purchase from Seller that number of shares of common stock of CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. as are set forth opposite the respective names of each such Purchaser in column 1 of Exhibit A hereto on the Closing Date hereinafter referred to for the consideration specified in Section 2 below. The aggregate amount of such stock agreed to be purchased by the Purchasers is 146,183 shares, and is hereinafter referred to as the "Stock". CHECSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. is hereinafter referred to as the "Company".
- 2. The purchase price for the Stock shall be Four hundred thirty eight thousand, Five hundred forty nine (\$433,549) Dollars, payable by delivery of the following on the Closing Date:
  - (a) Each of the Purchasers shall deliver the sum set forth opposite his name in

Column 5 to Exhibit A hereto, in cash or by certified or official bank check or checks;

- deliver promissory notes, in the form annexed hereto as Exhibit B, in the principal amounts and maturing on the dates as are set forth with respect to such Purchaser in Columns 6 and 7 of Exhibit A hereto. Each such note shall bear interest at the rate of 9-1/2 per cent per annum on the unpaid balance thereof, payable quarterly commencing three months after the date of said note. With respect to said notes:
  - (i) Andrew E. Norman will cosign the notes of Harold Steinberg; and
  - (ii) Andrew E. Norman will cosign one note of Harold Harris in the amount of \$40,530; and
  - (iii) Any of the notes set forth in Schedule A may be prepaid at any time without penalty.
- 3. Payment for and delivery of the Stock shall be made at the offices of Morgan Guaranty Trust Company of

New York, Madison Avenue at 58th Street, on April 10, 1970, at 12:30 o'clock (the "Closing Date"). On the Closing Date:

- (a) Each of the Purchasers will deliver the sums and the notes referred to in Paragraph 2 hereto.
- (b) Seller shall deliver to, or upon the order of, each of the Purchasers certificates for that number of shares of the Stock as are set forth opposite the name of such Purchaser in Column 2 of Exhibit A hereof, such certificates to be duly endorsed in blank and accompanied by funds sufficient to pay one half of the transfer taxes with respect thereto.
- (c) Seller shall deliver to Morgan Guaranty
  Trust Company of New York ("Escrow Agent") certificates
  for an aggregate of 112,850 shares of the Stock, in
  the denominations set forth in Columns 3 and 4 of
  Exhibit A hereof, such certificates to be duly endorsed in blank and accompanied by funds sufficient to
  pay one half of the transfer taxes.
- (d) The Purchasers, Seller and the Escrow Agent shall deliver an escrow agreement in

the form annexed hereto as Exhibit C, under which those shares of the Stock which are deliverable pursuant to subparagraph (c) of this Paragraph 3 shall be held by the Escrow Agent.

- (e) Seller will deliver his resignation as an officer and director of the Company.
- (f) Seller will deliver a general release to the Company and the officers and directors of the Company, in the form annexed hereto as Exhibit D.
- (g) The Purchasers and the Company will deliver a general release to Seller, in the form annexed hereto as Exhibit E.
- (h) Each of the Purchasers will deliver to the Seller and the Company a letter in the form annexed hereto as Exhibit F.
- 4. Seller represents and warrants that he is the owner of the Stock and that the Stock is free and clear of any liens or encumbrances and that Seller has the unqualified right to transfer the Stock, vesting all right, title and interest therein, thereto and thereunder in Purchasers and that the aggregate number of shares being delivered to Purchasers pursuant to this Agreement represents all of the outstanding common stock of the

Company owned by Seller.

- Seller harmless against any claims, including legal fees and expenses, for brokerage commissions or finder's fees in connection with the transactions contemplated by this Agreement insofar as such claims shall be alleged to be based upon arrangements or agreements made by or on behalf of the Purchasers; and Seller will indemnify and hold the Purchasers harmless against any claims, including legal fees and expenses, for brokerage commissions or finder's fees in connection with the transactions contemplated by this Agreement insofar as such claims shall be alleged to be based on arrangements or agreements made by or on behalf of him. Neither the Purchasers nor Seller shall have any liability for the expenses of the other incurred in connection with this Agreement.
- 6. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration, in accordance with the rules of the American Arbitration Association in New York City, and judgment upon the award may be entered in any court having jurisdiction thereof.

- 7. This Agreement contains all of the intentions and understandings of the parties and shall not be amended except by written instrument executed by the parties hereto.
- 8. This Agreement shall be binding upon the successors, assigns, heirs, executors and administrators of the parties hereto.
- 9. The Seller's representations and warranties hereunder shall survive the closing of this transaction and the delivery of all required instruments hereunder.
- 10. The terms of this Agreement shall be considered and determined in accordance with the laws of the State of New York.
- IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

  In the presence of:

Harold Steinberg, Purchaser

Harold Harris, Purchaser

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Andrew E. Norman, Purchaser
Andrew E. Norman, Purchaser
Leon W. Friedman, Purchaser
Fred, L. /Israel, Purchaser
Fred L./Israel, Purchaser
Skah. Mb
Stephen Wise, Purchaser  By Stephen Wise, Purchaser  Richard Maybruck, Purchaser
Richard Maybruck, Purchaser
Stuart A. Jackson, Purchaser and
Jack Oppenheim, Seller
Jack Oppenheim, Seller

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TOTAL	tuart A. Jackson	ichard Waybruck	Stephen Wise	red L. Israel	leon W. Friedman	ndrew E. Norman	Erold Harris	hrold Steinberg	Name of P - chaser
146,183	14,618	5,000	10,000	1,462	731	64,754	35,000	14,618	Total Number of Shares of The Stock To Be Purchased
33,333	3,334	1,140	2,280	333	167	14,765	7,980	3,334	Number of Shares of the Stock To Be Received at:
56,425	5,642	1,930	3,860	565	282	24,994	13,510	5,642	Number of Shares To Be Delivered In Escrow To Secure Note Iden- tified in Col.6
56,425	5,642	1,930	3,860	565	282	24,995	13 510	5,642	Number of Shares To be Delivered In Escrow To Secure Note Iden- tified in Col.7
\$100,000	10,002	3,420	6,840	1,000	501	44,295	.23,940	\$ 10,002	Amount to be deliv- ered to Oppenheim at Closing
\$169,274.50	16,926.00	5,790.00	11,580.00	1,693.00	846.00	74,983.50	40,530.00	\$ 16,926.00	Principal Amount of Note Due April 10, 1971
\$169,274.50	16,926.00	5,790.00	11,580.00	1,693.00	60	74,983.50	40,530.00	\$ 16,926.00	Principal Amount of Note Due Due 197

\$

April , 1970 New York, New York

### PROMISSORY NOT

For Value Received,

at hereby promises to pay to office of the Morgan Guaranty Trust Company of New York, the principal sum of ) in such coin or currency of the United Dollars (\$ States of America as at the time of payment shall be legal .. tender for the payment of public or private debts, such years from the date of this payment to be made instrument, together with interest from the date hereof at the rate of 9-1/2% per annum on the unpaid principal amount outstanding on the date on which such interest is due, such interest to be paid in quarterly installments , and , October , July on each April January

This note may be prepaid without penalty at any time during the term thereof.

If there shall be any default in the payment of any installment of principal or interest when the same shall become due and payable hereunder, and such default

shall not have been remitted within ten (10) days after mailing a notice thereof, all installments shall become due and payable forthwith at the option of the holder hereof.

The undersigned, if more than one, shall be jointly and severally liable hereunder and, the term "undersigned" shall mean the undersigned or any one or more of them and their heirs, executors, administrators, successors, or assigns.

This note is made in and is intended to be performed in the State of New York and shall be governed and construed in accordance with the laws of such State.

If this note is placed with an attorney for collection, the company shall pay all costs of collection, including, but not limited to, counsel fees, which fees shall be added to the unpaid balance of this note and be recoverable with and as a part there of.

Signature	
Address	
Signature	
Address	

### ESCROW AGREEMENT

Dear Sirs:

- Oppenheim ("Oppenheim") and Harold Steinberg, Harold Harris, Andrew E. Norman, Leon T. Friedman, Fred L. Israel, Stephen Wise, Richard Maybruck and Stuart A. Jackson (the "Stockholders") respecting the agreement by Oppenheim to deposit the shares of the Common Stock of Chelsea House Educational Communications, Inc. (the "Company") transferrable by Oppenheim to the Stockholders pursuant to the provisions of that certain Agreement (the "Agreement") dated April 1970 between Oppenheim and the Stockholders.
  - 2. Oppenheim hereby agrees to deposit with you sixteen certificates, each representing the number of shares of the Company as are set forth opposite the names of the Stockholders in Columns 3 and 4 of Schedule I hereto. The total of all such shares is 112,850 and are hereinafter called the "Escrow Shares". Each certificate shall be accompanied by at least one stock power duly signed in blank on behalf of Oppenheim. You hereby agree to hold

and distribute the Escrow Shares as provided herein.

- 3. Such of the Escrow Shares as are set forth opposite each of the respective Stockholders' names in Columns 3 and 4 of Schedule I hereto shall serve as security for the full payment of the notes, delivered by such Stockholder to Oppenheim under Paragraph 2(b) of the Agreement, set forth in Columns 6 and 7 of said Schedule I.
- that any Stockholder has defaulted in performing any of his obligations under the notes delivered by such Stockholder to Oppenheim under Paragraph 2(b) of the Agreement, Oppenheim shall, in order to enforce payment hereunder, notify you in writing with a copy to the Stockholder, all by registered or certified mail addressed as hereinafter set forth, specifying the nature of the default which has allegedly occurred. If, within ten (10) days after the mailing of such notice, the Stockholder fails to cure such default and reimburse Oppenheim for all loss, damage and expense incurred by Oppenheim in consequence of such failure, Oppenheim shall be entitled to receive all of the shares then being held by you as are set forth opposite the Stockholder's name in columns 3 and 4 of Schedule I hereto;

provided, however, that if within said ten (10) day period the Stockholder notifies you in writing by registered or certified mail with a copy to Opporheim that he denies or disputes the alleged default, the controversy shall be promptly resolved by arbitration in New York, New ork, in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

- 5. If any claim of a default is not contested by, or if it is contested but thereafter determined to be a default by, the Stockholder, Oppenheim shall be entitled to receive all of the Escrib Shares set forth opposite the Stockholder's name in Columns 3 and 4 of Schedule I hereto.
- Oppenheim, and addressed to any Stockholder, for the sum set forth with respect to such Stockholder opposite his name in Column 6 of Schedule I hereto, together with acknowledgment by Oppenheim that there have been no uncured defaults by such Stockholder in interest payments by such Stockholder, you shall deliver to such Stockholder that number of shares of the Escrow Stock as are set forth opposite his name in Column 3 of Schedule I hereto. Upon

addressed to any Stockholde, acknowledging that a sum equal to the total of the amounts set forth with respect to such Stockholder's name in Columns 6 and 7 of Schedule I hereto, has been received by him under the Agreement, and that there have been no uncured defaults in interest payments by such Stockholder, you shall deliver to such Stockholder that number of shares of the Escrow Stock as equal the total number of shares in Columns 3 and 4 of said Schedule I set forth opposite such Stockholder's name.

- 7. Dividends (other than dividends payable in stock of the Company) declared and paid upon any Escrow Shares shall, while such shares are held on deposit by you under this Agreement, nevertheless belong to the Stockholders and shall be remitted to the Stockholders, upon receipt thereof, and the Stockholders shall have full voting rights with respect to the Escrow Shares.
- 8. In the event that, on May 1, 1972 you shall then be holding Escrow Shares, you shall return to each Stockholder that number of Escrow Shares as are set forth opposite his name in Columns 3 and 4 of Schedule I thereto,

less the sum of (i) that number of Escrow Shares which have been previously returned by you to such Stockholder pursuant to Paragraph 6 hereof and (ii) such number of Escrow Shares as may be necessary to satisfy any claim for default previously asserted (but not yet determined) against such Stockholder, as described in Paragraph 4 hereof.

- 9. In performing your duties hereunder, you will be entitled to rely on statements furnished to you by Oppenheim or the Stockholders, acting jointly, or on other evidence deemed to you to be reliable, and to act on the advice of counsel selected by you. Under no circumstances shall you be liable for any error, act or omission in good faith. You shall be entitled to reimbursement for any loss, cost, damage and expense incurred by you in the administration of this Escrow Agreement. You may resign by instrument in writing delivered to Oppenheim and the Stock-holders. Such resignation shall be effective upon appointment of a successor escrow agent satisfactory to all parties hereto.
  - 10. In the event of any change in the capital stock of the Company through merger, consolidation or reorganization, or in the event of any dividend to holders

of such stock payable in stock of the same class or the issue to such holders of rights to subscribe for stock in the same class, or in the event of any other change in the capital structure of the Company, the additional or reclassified shares or other securities issued or exchanged on account of the original Escrow Shares shall be added to and become Escrow Shares hereunder for all purposes.

- 11. All notices hereunder shall be given to the respective parties hereto as follows:
  - (a) If to Oppenheim, 241 Central Park South, New York, New York; or
  - (b) If to the Stockholders, c/o Harold Steinberg, Chelsea House Educational Communications, Inc., 70 West 40th Street, New York, New York (with a copy to Royall, Koegel & Wells, 200 Park Avenue, New York, New York, New York, attention Stuart A. Jackson); or
    - (c) If to you,
  - 12. The stockholders and Oppenheim shall each pay one-half of your expenses hereunder.

- 13. This Escrow Agreement shall be construed in accordance with the laws of the State of New York.
- 14. This Escrow Agreement shall inure to the benefit of and be binding upon the parties hereto, and each of them, and their respective heirs, successors and assigns.

Your endorsement on the enclosed two copies of this letter will evidence your acceptance of the 146,183 shares of the Common Stock of Chelsea House Educational Communications, Inc. on the terms and conditions herein set forth.

VG	ery truty yours,
_	Jack Oppenheim
_	Harold Steinberg
	halold beelineers
_	Harold Harris
-	Andrew E. Norman
	V .
	Loon W Friedman

	Fred L. Israel
	Fred L. Israel
•	
	Stephen Wise
	Richard Maybruck
	Stuart A. Jackson

Accepted:

	. 1	2	3	4	<u>5</u>	<u>6</u> .	4 .
Name of Purchaser	Total Number of Shares of The Stock To Be Purchased	Number of Shares of the Stock To Be Re- ceived at Closing	Number of Shares To Be Delivered In Escrow To Secure Note Iden- tified in Col.6	To Be Delivered In Escrow To	Amount to be deliv- ered to Oppenheim at Closing	Principal Amount of Note Due April 10, 1971	Principal Amount of Note Due April 10, 197:
mrold Steinberg	14,618	3,334	5,642	5,642	\$ 10,002	\$ 16,926.00	\$ 16,926.00
Mrold Harris	35,000	7,980	13,510	13,510	23,940	40,530.00	40,530.00
mdrew E. Norman	64,754	14,765	24,994	24,995	. 44,295	74,983.50	74.983.50
Leon W. Friedman	731	167	282	282	501	846.00	846.00
Fred L. Israel .	1,462	333	565	,565	1,000	1,693.00	1,693.00
Stephen Wise	10,000	2,280	3,860	3,860	6,840	11,580.00	11,500.00
Richard Maybruck	5,000	1,140	1,930	1,930	3,420	5,790.00	5,790.00
Stuart A. Jackson	14,618	3,334	5,642	5,642	10,002	16,926.00	16,926.00
TOTAL	146,183	33,333	56,425	56,425	\$100,000	\$169,274.50	\$169,274.50

### SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT made this day of April,

1970, by and among JACK OPPENHEIM ("Oppenheim"), HAROLD

STEINBERG, HAROLD HARRIS, ANDREW E. NOPMAN, LEON W. FRIEDMAN,

STEPHEN WISE, RICHARD MAYBRUCK, FRED L. ISRAEL and STUART

A. JACKSON (the "Stockholders"), and CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. (the "Company").

## WITNESSETH

1. Oppenheim and his heirs, executors and administrators, for and in consideration of the sum of One (\$1.00) Dollar, paid to Oppenheim in hand, and other good and valuable consideration, the receipt of which is hereby acknowledged, does hereby remise, release and forever discharge CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC., a New York corporation, HAROLD STEINBERG, HAROLD HARRIS, ANDREW E.

NORMAN, LEON W. FRIEDMAN, STUART A. JACKSON, ROBERT HECTOR, STEPHEN WISE, JEFFREY STEINBERG, ARTHUR M. SCHLESINGER, JR., FRED L. ISRAEL and RICHARD MAYBRUCK, their respective present and former predecessors, successors, assigns, parents, subsidiaries, affiliates, officers, directors, agents, employees, executors and administrator; (hereinafter jointly and severally referred to as "Releasees"), from,

in respect of, or in relation to any and all manner of claims, actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, transactions, costs, omissions or refusals to act, damages, judgments, obligations, executions and demands of any kind whatsoever (whether joint or several), which against the Releasees, or any of them, Oppenheim ever had or now has, upon or by reason of any matter, cause or thing whatsoever, whether known or unknown, from the beginning of the world to the day of the date of these presents.

- 2. Oppenheim and the Company hereby cancel the employment contract between them dated July 1, 1969, with termination of compensation payable thereunder as of
- , 1970. The Company hereby agrees with Oppenheim that Article FOURTH of such employment contract is null and void and of no force and effect.
- 3. Notwithstanding any previous understanding between Oppenheim and the Company, or any officer, director or employee thereof, whether written or oral, Oppenheim shall have no further access to the premises or the books and records of the Company after the earlier of (a) June 6, 1970 or (b) the date on which the Company either (i)

reimburses Oppenheim for his cost with respect to the furniture purchased by him presently situated in his office at 70 West 40th Street, New York, New York, or (ii) removes such furniture, at the expense of the Company, to a place within New York City designated by Oppenheim.

Messrs. Steinberg, Norman and Wise, and the Company, each covenant that the Company will not, during the term of that certain Escrow Agreement among the Stockholders, Oppenheim and Morgan Guaranty Trust Company of New York, bearing even date herewith, offer its common stock solely to its existing shareholders unless it shall increase the number of Escrow Shares, as defined in said Escrow Agreedint, in the same proportion as the number of shares to be offered to such shareholders bears to the number of shares then held by such shareholders without cost to Oppenheim or the Escrow Agent.

The parties each acknowledge that this instrument contains the entire understanding of the parties and supersedes, revokes and cancels any and all other inducements, arrangements, understandings, agreements, representations or warranties, whether oral or written between the parties hereto with respect to any of the matters herein contained; and that in entering into this instrument the parties each

acknowledge and agree that none of them had or relied upon any express or implied inducement, statement, proposal, representation, warranty, guarantee, undertaking or agreement other than those expressly set forth herein; and further that the parties each assume and bear all risk as to any knowledge or lack of knowledge of any fact or matter not expressly set forth herein.

Dated: New York, New York April , 1970

Jack Oppenheim  CHELSEA HOUSE EDUCATIONAL  COMMUNICATIONS, INC.
CHELSEA HOUSE EDUCATIONAL
COMMUNICATIONS, INC.
Ву
President
Harold Steinberg
Andrew E. Norman
Leon W. Friedman
Stephen Wise
Richard Maybruck

Fred L. Israel

Stuart A. Jackson

The Chairman stated that the next order of husiness

EXHIBET E.

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## SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT made this day of April, 1970, by and among JACK OPPENHELM ("Oppenheim"), HAROLD STEINBERG, HAROLD HARRIS, ANDREW E. NORMAN, LEON W. FRIEDMAN, STEPHER WISE, RICHARD MAYBRUCK, FRED L. ISRAEL and STUART A. JACKSON (the "Stockholders"), and CHEL A HOUSE EDUCATIONAL COMMUNICATIONS, INC. (the "Company").

## WITHESSETH

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC., a New York corporation, HAROLD STEINBERG, HAROLD HARRIS, ANDREW E. NORMAN, LEON W. FRIEDMAN, STUART A JACKSON, STEPHEN WISE, FRED L. ISRAEL and RICHARD MAYBRUCK, and their respective present and former predecessors, successors, assigns, parents, subsidiaries, affiliates, officers, directors, agents, employees, executors and administrators (hereinafter jointly and severally referred to as "Releasors"), for and in consideration of the sum of One (\$1.00) Dollar, paid to Oppenheim in hand, and other good and valuable consideration, the receipt of which is hereby acknowledged, does hereby remise, release and forever discharge Oppenheim and his heirs, executors and administrators from, in respect of, or in relation to any and all manner of claims, actions, causes of action, suits, debis, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, transactions, costs, omissions or refusals to act, damages, judgments, obligations, executions and demands of any kind whatsoever (whether joint or several), which against Oppenheim, Releasors ever had or now have, upon or by reason of any matter, cause or thing whatsoever, whether known or unknown, from the beginning of the world to the day of the date of these presents.

The parties each acknowledge that this instrument contains the entire understanding of the parties and supersedes, revokes and cancels any and all other inducements, arrangements, understandings, agreements, representations or warranties, whether oral or written between the parties hereto with respect to any of the matters herein contained; and that in entering into this instrument the parties each rely solely on the matters expressly set forth herein and acknowledge and agree that none of them had or relied upon any express or implied inducement, statement, proposal, representation, warranty, guarantee, undertaking or agreement other than those expressly set forth herein; and further that the parties each assume and bear all risk as to any knowledge or lack of knowledge of any fact or matter not expressly set forth herein.

Dated: New York, New York April , 1970

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

		•
Ву	President	

Andrew E. Rorman	
Harold Harris	-
Leon W. Friedman	-
Stephen Wise	-
Richard Maybruck	-
Fred L. Israel	
Stuart A. Jackson	
Jack Oppenheim	_

, 1970

Chelsea House Educational Communications, Inc. 70 West 40th Street New York, New York

Mr. Jack Oppenheim 241 Central Park West New York, New York

Dear Sirs:

The undersigned is about to acquire shares of Common Stock (the "Stock") of Chelsea House Educational Communications, Inc. from Mr. Jack Oppenheim.

KESOLVED. that the Fresident of the

The undersigned recognizes that the above shares have not been registered under the Securities Act of 1933 in reliance upon representation by Mr. Jack Oppenheim that he was purchasing such shares for investment and not with a view to distributing the same. Accordingly, in recognition of the fact that such shares have not been so registered, the undersigned warrants and represents that the undersigned is acquiring the Stock for the undersigned's own account for investment and that the undersigned is not acquiring the Stock with a view to dividing the undersigned's participation with others or with a view to, or in connection with, any offering or distribution thereof and that the undersigned has no present intention of selling or otherwise disposing of the Stock.

The undersigned agrees that Chelsea House Educational Communications, Inc. shall not be required to make, permit or recognize any exchange, pledge, transfer, hypothecation or assignment of the Stock, in the absence of an effective registration statement for the Stock under the Securities Act of 1933, as amended, or unless the undersigned shall furnish Chelsea House Educational Communications, Inc. at the time thereof with an opinion of countel, satisfactory to Chelsea House Educational Communications, Inc., to the effect that such exchange, pledge, transfer, hypothecation, assignment or issue would not involve any violation of the Securities Act of 1933, as amended. The undersigned further agrees that the certificate evidencing

Name

Number of Shares

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the shares to be purchased, which is to be issued in the name of the undersigned, may bear a legend referring to the foregoing and restricting transfer of such shares except as hereinbefore specified.

Very truly yours,

Plaintiff's Exhibit 6

Signed document entitled "Lochsley Hall, Inc. Unanimous consent of Stockholders"

e hilato

# LOCHSLEY HALL, INC. UNANIMOUS CONSENT OF STOCKHOLDERS

The undersigned, being all of the holders of the issued and outstanding shares of stock of Lochsley Hall, Inc., a New York corporation, do hereby adopt the following resolutions pursuant to Section 615 of the Business Corporation Law of New York, by our unanimous written consent without a meeting and in lieu of a special or annual meeting of stockholders, with full force and effect as if adopted by the affirmative vote of all of us at a duly constituted meeting:

RESOLVED, that the following persons be and hereby are elected as directors of this Corporation, to serve as such pursuant to the By-laws of this Corporation until their successors are duly elected and shall qualify:

Robert Hector
Fred L. Israel
Stuart A. Jackson
Andrew E. Norman
Jack Oppenheim
Arthur M. Schlesinger, Jr.
Harold Steinberg
Stephen Wise; and further

RESOLVED that all actions of the officers and directors of this Corporation heretofore taken in organizing, developing, promoting, directing and otherwise managing and conducting the business and affairs of this Corporation since the date of its incorporation on November 3, 1966, including

but not limited to those involved in the employment of persons to work for this Corporation, the fixing and payment of salaries of officers and other employees of this Corporation, the sale or other distribution of assets and issuance of shares of common stock of this Corporation for such consideration as may have been deemed reasonable under the circumstances thereof, and the purchase of assets, including shares of stock of subsidiaries of this Corporation (including University-at-Large Programs, Inc.) and inventory of this Corporation, for such consideration as may have been deemed reasonable under the circumstances thereof, be and hereby in all respects approved, ratified, confirmed and validated; and further

RESOLVED, that pursuant to Section 1 of Article X of the By-laws of this Corporation, the first sentence of Section 1 of Article III of the By-laws of this Corporation be and hereby is amended to provide that the business of the Corporation shall be managed by the Board of Directors, which in its entirety, shall consist of such number, not less than three nor more than nine directors, as determined by the Board of Directors from time to time, all of whom shall be at least 21 years of age; and further

RESOLVED, that the following amendments to the Certificate of Incorporation of this Corporation be and hereby are authorized and approved:

- (a) An amendment to change the name of this Corporation to Chelsea House Educational Communications, Inc.;
- (b) To recapitalize the company by changing each of the 400 presently authorized shares of no par common stock into 1879.25 shares of \$.01 par value common stock and adding sufficient new shares of \$.01 par value common stock, so that the aggregate number of shares authorized shall be Two Million (2,000,000) shares of \$.01 par value common stock;

- (c) To change the designation of the registered office of this corporation to 70 W. 40th Street, New York, N. Y.;
- (d) To eliminate provisions requiring 100% voting upon any merger, consolidation, dissolution and/or sale of all or substantially all of the assets of this Corporation and the consent of 100% of the shares entitled to vote for directors in order to mortgage or pledge or create any security interest in all or substantially all of the property of this Corporation; and
- (e) To add new provisions which will eliminate pre-emptive rights and cumulative voting; and further

RESOLVED, that the appropriate officers of this Corporation be and hereby are authorized and directed to sign all certificates, instruments, and other documents, and to take all other or further actions as may be necessary or appropriate to effectuate the intent and purpose of the foregoing resolution; and further

RESOLVED, that upon completion of such recapitalization, the issue of the following shares by this Corporation to each of the following persons, in payment for services rendered to this Corporation by such persons, be and hereby is in all respects approved and authorized provided, however, that each of such persons execute and deliver to this Corporation a letter restricting disposition of two-thirds of such shares and imposing a reversion upon two-thirds of such shares upon voluntary termination of employment by the respective person to whom such shares are issued, on discharge of such person for cause, all for a period of time from the date of issuance of such shares and upon other terms and conditions to be determined in the discretion of the Board of Directors or its designees, and in addition a letter setting forth the knowledge of each such person that a sale of such shares has not been registered with the Securities and Exchange Commission and that such shares are being taken by each such person for investment and not with a view to distribution or sale thereof:

Name	Number	of Shares
Leon Friedman	2,000	shares
Fred L. Israel		shares
Stuart A. Jackson		shares
Jeffrey J. Steinberg	3,000	shares

and further

RESOLVED, that the appropriate officers and directors of this Corporation be and hereby are authorized and directed to execute and deliver such certificates, agreements and other instruments and documents as may be necessary or appropriate to effectuate the intent and purpose of the foregoing resolution; and further

RESOLVED, that a form of Qualified Stock Option Plan, providing for the issuance of options to purchase up to an aggregate of 25,000 shares of common stock of this Corporation in the form and substance heretofore approved and adopted by the Board of Directors of this Corporation be and hereby is in all respects approved and adopted as the Qualified Stock Option Plan of this Corporation; and further

RESOLVED, that the sale of up to 200,000 shares of common stock of this Corporation to the public, at a price and upon terms and conditions to be determined by the Board of Directors of this Corporation in their discretion, and in connection therewith, the granting to the underwriter of a warrant to purchase up to 20,000 shares and the appointment of a transfer agent and registrar, both upon terms and conditions to be approved by the Board of Directors of this Corporation in their discretion, be and hereby is in all respects approved and authorized; and further

RESOLVED, that upon approval by the Board of Directors of this Corporation of such issue and sale of shares of common stock to the public, the appropriate officers of this Corporation be and hereby are authorized and directed to execute and deliver all such

certificates, instruments, agreements and other documents, and to take all such other or further actions as may be necessary or appropriate to effectuate the intent and purpose of the foregoing resolution.

IN WITNESS WHEREOF we have executed this instrument of our unanimous consent this 16th day of June, 1969

Robert Hector

Fred L. Caracl

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Andrew E. Norman

Jack Oppenheim

Warold Stainbarg

Stephen Wise

Plaintiff's Exhibit 7

Unsigned document entitled "Minutes of a Special Meeting of the Board of Directors of Lochsley Hall, Inc." Exhalt 7

MINUTES OF A SPECIAL MEETING OF THE BOARD OF DIRECTORS

OF

LOCHSLEY HALL, INC.

A special meeting of the Board of Directors of Lochsley Hall, Inc., a New York corporation, was held at the offices of Royall, Koegel & Wells, 200 Park Avenue, New York, N. Y. on the 13th day of June, 1969 at 11 o'clock in the forenoon. The following named directors, constituting all of the directors of the corporation were present:

Robert Hector Andrew E. Norman Jack Oppenheim Harold Steinberg

Also present by invitation were Messrs. Leon Friedman, House Counsel for the corporation, and Bruce R. Tuttle, Jr. of the firm of Royall, Koegel & Wells.

Pursuant to the By-laws, Mr. Robert Hector, Chairman of the Board, presided as Chairman of the meeting, and by unanimous consent, Mr. Tuttle acted as Secretary of the meeting.

The Chairman noted that the first order of businessimes was to approve the minutes of the last meeting of the Board of Directors, held on December 21, 1967. By unanimous voice vote, the reading of said minutes was dispensed with and the minutes were approved.

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The Chairman stated that the next order of business was to take the appropriate action concerning the election of officers of the corporation. After discussion, upon motion duly made, seconded and carried without opposition (each director abstaining as to his own election, and all other directors voting in the affirmative), it was:

RESOLVED, that the following persons be and hereby are elected officers of this corporation to serve as such during the pleasure of this Board of Directors in the offices set opposite their respective names:

Name	<u>Office</u>
Harold Steinberg	President
Robert Hector	Chairman of the Board
	and Treasurer
Jack Oppenheim	Vice President
Andrew E. Norman	Vice President
Stephen Wise	Vice President
Jeffrey J. Steinberg	Vice President
Stuart A. Jackson	Secretary

The Chairman stated that the next order of business was to take action with respect to retainers of professional consultants. After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the retainer of the law firm of Royall, Koegel & Wells as general counsel for the corporation for compensation equal to said firm's usual rates for the services rendered, be and hereby is approved and confirmed; and further

RESOLVED, that the retainer of the accounting firm of Price, Waterhouse & Co. as independent auditors for the Corporation for compensation equal to said firm's usual rates for the services rendered be and hereby is approved and confirmed.

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They are really more a hannening than a nithlighing house

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The Chairman stated that the next order of business was to consider and take the appropriate action with respect to effectuating certain amendments to the Certificate of Incorporation of the corporation. A proposed form of Certificate of Amendment to the Certificate of Incorporation of the corporation was presented, and there was discussion of the proposed amendments. Thereupon, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the following amendments to the Certificate of Incorporation of this corporation be and hereby are authorized and approved:

- (a) To change the mame of this corporation to Chelsea House Educational Communications, Inc.;
- (b) To recapitalize the company by changing each of the 400 presently authorized shares of no par value common stock into 1879.25 shares of \$.01 par value common stock and adding sufficient new shares of \$.01 par value common stock, so that the aggregate number of shares authorized shall be Two Million (2,000,000) shares of \$.01 par value common stock;
- (c) To change the designation of the registered office of this corporation to 70 W. 40th Street, New York, New York;
- (d) To eliminate provisions requiring 100% voting upon any merger, consolidation, dissolution and/or sale of all or substantially all of the assets of this corporation and the consent of 100% of the shares entitled to vote for directors in order to mortgage or pledge or create any security interest in all or substantially all of the property of this corporation; and
- (e) To add new provisions which will eliminate pre-emptive rights and cumulative voting; and further

RESOLVED, that appropriate officers of this corporation be and they hereby are authorized and directed to cause such amendments to be presented to the stockholders of this corporation, and upon approval by at least a two-thirds majority thereof, to cause a Certificate of Amendment incorporating all of such amendments so approved to be submitted to and filed with the office of the Secretary of the State of New York; and further

RESOLVED, that the appropriate officers of this corporation be and hereby are authorized and directed to execute such certificates, instruments and documents as may be necessary and appropriate to effectuate the intent and purpose of the foregoing resolutions.

The Chairman stated that the next order of business was to consider the adoption of a Qualified Stock Option Plan in order to give key employees of the corporation an inducement to acquire a proprietary interest in the corporation and an additional incentive to advance the interests of the corporation. He proposed that, for this purpose, 25,000 shares of the common stock of the corporation, which would be available following completion of the proposed recapitalization, be set aside. The Chairman presented to the meeting a form of plan and option agreement thereunder, and there was discussion of the plan and form of Stock Option Agreement. After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that subject to approval of the stockholders of the corporation within one year from the date of this meeting, and subject to completion of the proposed recapitalization of this corporation, this Board of Directors does hereby approve and adopt a Qualified Stock Option Plan providing for the issuance of stock

options to key employees of this corporation up to an aggregate of 25,000 shares, under which plan the option price, the manner and time of exercise and the other terms and conditions of exercise are to be determined by the Board of Directors at the time of granting each such option, and which plan and the agreement and option thereunder are to be substantially as presented to and discussed at this meeting, but always to be such that said options shall be qualified under the United States Internal Revenue Code and all regulations thereunder.

The Chairman stated that the next order of business was to consider and take the appropriate action with respect to the granting of an option to Mr. Arthur M. Schlesinger, Jr. to purchase up to 3,500 shares of common stock under the just approved Qualified Stock Option Plan. After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that Arthur M. Schlesinger, Jr., a key employee of the corporation, be and hereby is granted a stock option pursuant to the Qualified Stock Option Plan of the corporation, to purchase up to 3,500 shares of common stock of the corporation at a price of \$10 per share, such price being, in the opinion of this Board of Directors, equal to the fair market value of the corporation's common stock as of the date of this meeting; and further

RESOLVED, that the foregoing option shall be consistent with the Qualified Stock Option Plan of the corporation, and shall not be exercisable in whole or in part until June 13, 1970, and shall be at all times subject to approval of the recapitalization of the corporation and approval of the Qualified Stock Option Plan of the corporation by the stockholders of the corporation prior to such date; and further

RESOLVED, that the President of the corporation be and hereby is authorized and directed forthwith to notify such employee of the grant of the foregoing option, and, as soon as practicable to cause the appropriate officers of the corporation to enter into a Stock Option Agreement with such employee, subject to and in accordance with the provisions of the corporation's Qualified Stock Option Plan.

The Chairman stated that the next order of business was to consider and to take the appropriate action to provide compensation in the form of stock to certain additional employees of the corporation. After discussion, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that upon completion of the previously proposed and approved recapitalization of the corporation to provide a total authorized capital of 2,000,000 shares of common stock, \$.01 par value, the issue of the following shares by this corporation to each of the following persons, in payment for services rendered to this corporation by said persons, be and hereby is in all respects approved and authorized, provided, however, that each of such persons execute and deliver to this corporation a letter restricting disposition of two thirds of such shares and imposing a reversion upon two thirds of such shares upon voluntary termination of employment by the respective person to whom such shares are issued, or discharge of such person for cause, all for a period of time from the date of issuance of such shares and upon other terms and conditions to be determined in the discretion of the President and the Chairman of the Board, and in addition, a letter setting forth the knowledge of each of such persons that a sale of such shares has not been registered with the Securities and Exchange Commission and that such shares are being taken by each such person for investment and not with a view to distribution or sale thereof:

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Name	Number of Shares 130
Leon Friedman	2,000 shares
Fred L. Israel	5,939 shares
Stuart A. Jackson	12,500 shares
Jeffrey J. Steinberg	3,000 shares; and further

RESOLVED, that the appropriate officers of this corporation be and hereby are authorized and directed to execute and deliver such certificates, agreements and other instruments and documents as may be necessary or appropriate to effectuate the intent and purpose of the foregoing resolution; and further

RESOLVED, that the issuance of certain shares of common stock to Fred L. Israel as of June 30, 1968 pursuant to a certain letter agreement dated March 18, 1969 between Fred L. Israel and this corporation, which restricts transfer of such shares, and a letter modification thereof dated June 17, 1969 be and hereby is in all respects approved, confirmed, ratified and validated.

The Chairman stated that the next order of business was to consider and take the appropriate action to approve a sale by the corporation to the public of shares of common stock of the corporation. He stated that a letter of intent dated April 11, 1969 had been entered into with the brokerage house of Herzfeld & Stern whereunder said firm proposed to purchase from the corporation, for resale to the public, a total of 180,000 shares of common stock and take an option on an additional 20,000 shares to cover over-allotments, such sale to the public being contemplated to take place at an offering price of \$10 per share. He stated that an underwriting agreement with such brokerage house had not yet been entered into. but it was contemplated that the corporation would receive

approximately \$9.30 per share from the underwriter and would give the underwriter options to purchase up to an aggregate of 20,000 shares of common stock at a price of \$11.00 per share. The matter was discussed and reviewed in detail. Thereupon, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the issue and sale of up to 200,000 shares of common stock of this corporation to the public, at a price and upon terms and conditions to be determined by the President and the Chairman of the Board of this corporation be and hereby is approved; and further

RESOLVED, that the granting of an option or warrant to the brokerage house of Herzfeld & Stern to purchase 20,000 shares at a price which shall be ten percent above the public offering price be and hereby is approved; and further

RESOLVED, that the appropriate officers of this corporation be and they hereby are authorized and directed to execute and deliver all such certificates, instruments, agreements and other documents, and to take all such other or further actions as may be necessary or appropriate to effectuate the intent and purpose of the foregoing resolution.

There being no further business to be transacted, upon motion duly made, seconded and unanimously carried, the meeting was adjourned.

	Secretary of the Meeting
	secretary of the meeting
Robert Hector	Jack Oppenheim
Andrew E. Norman	Harold Steinberg

Plaintiff's Exhibit 8

Chelsea House Educational Communications, Inc., unaudited Consolidated Balance Sheet as at April 30, 1970 with attached envelope In June 20 1969 by amondment to its certificate of incom-

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## CHELSER, HOUSE EDUCATIONAL COMADMICATIONS, INC.

### CONSOLTRATED FALANCE SHEET

APRIL 30, 1970 \* (Unaudited)

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	Time Co.		(0)
Current assets:- Cash Accounts receivable Less - Reserve for s	ales returns	\$227,824 31,538	\$ 13,860
Due from joint venture Unbilled costs and acc contracts in process	rued earnings on		146,286 37,000
Inventories Books Film costs		380,549 484,674	113,270
Prepaid expenses Total current	assets		865,223 .79,896 1,255,555
Bookplates, less accumul \$29,315 Royalty advances Furniture, equipment and at cost, less accumula amortization of \$5,113	leasehold improvements,		48,208 54,792 25,069 58,800
Pilm library Deposits and miscellance Organization costs less of \$2 575	accumulated amortization	, '	15,975
UNITED STATES DISTRICT COURT. Southern District of New York in the Matter of: CHELSEA ROUSE EDUCA-	ies and stockholders	deficit	\$1,460,075
UNITED STATES DISTRICT COURT. Southern District of New York. In the Matter of: CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS. INC. (105-1078) LOCUSED HOUSE FURLISHERS. Tax ID # 13-2573326 of 70 West 40th Street. New York. N. Y. Debtor No. 75-12-500. NOTICE IS HEREBY GIVEN that on July 2nd. 1970 the above-named debtor filed a petition under Chapter NI of the Bankruptcy Act and states that it intends to propose an arrangement with its unsecured creditors. A first meeting of creditors will be held at the office of the undersigned Referee. Roam 201. United States Court Fause, Foley Square, New York. N. Y. 16097, on July 29th. 1970. at 10-60 A.M., at which place and time the creditors may attend, prove their claims, nominate a trustee, appoint a committee of creditors, examine the debtor and transact such other business as may properly come before said meeting, including hearing and determining whether the debtor should be adouged a bankrupt, and bankruptcy proceeded with, or the proceedings dismissed on any of the srounds specified in Section 376 of the Act.  NOTICE IS HEREBY GIVEN that at such meeting the court will fix a time within which the proposed arrangement shall be filed and will fix a time within which the proposed arrangement shall be filed and will fix a time for the filing of the application to confirm the arrangement and for hearing on the cenfirmation thereof, and of such objections as may be made to the confirmation.  Accompanying this notice is a summary of the assets and liabilities scheduled by said debtor.	ned expenses		\$ 506,221 607,135 498,827 10,790 1,622,973
A.M. at which place and time the creditors may attend, prove their claims, nominate a trustee, appoint a committee of creditors, examine the debtor and transact such other business as may properly come before said meeting, including hearing and determining whether the debtor should be adjudged a bankrupt, and lankrupt proceeded with, or the proceedings dismissed on any of the grounds specified in Section 376 of the Act.  NOTICE IS HEREBY GIVEN that at such meeting the court will fix a line.	.ue:		110,000
within which the proposed arrangement shall be filed and will fix a time for the filing of the application to confirm the arrangement and for hearing on the cenfirmation thereof, and of such objections as may be made to the confirmation.  Accompanying this notice is a summary of the assets and liabilities scheduled by said debtor  DATED: NEW YORK, NEW YORK  July 10th, 1970  HERBERT LOEWENTHAL  Referee in Bankruptcy	686,469 shares value	cted stock	6,865 ,170,097 (433,650) (256,688) (16,210) (272,898)
YOU MUST FILE A CLAIM before confirmation in order to participate in the distribution of the consideration, if any, to be deposited.	and stockholders' e	equity	\$1.460,075
		A CONTRACTOR OF THE SECOND CONTRACTOR OF THE S	

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UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF NEW YORK UNITED STATES COURT HOUSE REFEREES IN BANKRUPTCY NEW YORK, N. Y. 10007 OFFICIAL BUSINESS FOLEY SQUARE

POSTAGE AND FEES PAID UNITED STATES COURTS

> Royall, Koegel & Wells 200 Park Avenue New York, New York 10017 no Laprices

The company leases its office space for an approximate annual

Defendant's Exhibit A

Article from New York Magazine entitled "Chelsea Boys and How They Grew"

## Sopkin ELSEA BOYS W THEY GREW

13/11/20 1:

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# "... 'Harold, that girl in that office is nude!' 'Well, Jason, we're pretty permissive here. We let people do their own thing.'..."

Jason Epstein, a capo don of the New York literary mafia, is a vicepresident of Random House, the editor of such authors as Philip Roth and Oscar Lewis, the husband of Barbara Epstein, herself a power at The New York Review of Books, and, last but not least, an amateur cook ranking somewhere between Mrs. Beeton and Craig Claiborne. It is Epstein's knowledge of kitchens which led him a few months ago to visit two buttonmen of publishing, Bob Hector and Harold Steinberg, a pair of former press agents whose forebears are Rumanian but whose technique is Hungarian, a devastating combination in any field of endeavor but one especially well suited to the Balkan intrigues of publishing.

Hector and Steinberg operate on West 40th Street. They each own about 20 per cent of a four-year-old company they founded named Chelsea House, which publishes live books by dead authors and also is in the multi-media field of films and tape. It is a lapse in the otherwise sound intelligence of Epstein that he has allowed himself to be gulled by his old friend Steinberg.

What Chelsea wanted to do, Steinberg has explained to Epstein, was install a kitchen in their office. Steinberg and Epstein live in the same apartment house on the West Side and Steinberg has seen Epstein's magnificent kitchen. Chelsea House needs a lot of things, but what it doesn't need is a kitchen.

Epstein arrives at Chelsea House and Steinberg, with a trace of uncommon obsequiousness, shows Epstein potential sites for the kitchen. The two arrive at an office with a closed door and Steinberg says quietly, "Jason, how about this office, do you think it would work?" The trap springs; Epstein opens the

door, Steinberg grinning maniacally at his heels. In the office behind a type-writer is an attractive nude girl.

Now publishing is a casual industry and editors especially are quite relaxed, but nothing in Jason Epstein's past has quite prepared him for the nude typist. "Harold," says Epstein, "Harold, that girl ..." "Let's look down this hall," says Steinberg. "Harold," Epstein says, "that girl in that office I just looked into, that girl had no clothing on." "Oh," says Steinberg, "I didn't even no-tice." "Harold," says Epstein, "what I'm telling you is that she was nude." Epstein's voice is beginning to reach a higher register. "Well, Jason," says Steinberg, "we're pretty permissive here. We let people do their own thing." At the end of the hall they run into Hector. By way of explanation, Steinberg says, "You know Jason, Bob here writes with his shirt off." Epstein stares first at Steinberg and then at Hector, trying to comprehend them.

If Epstein has difficulty understanding Steinberg and Hector, he is not alone: they have been baffling friends and enemies alike for 20 years. And before one can understand these two aging hippies who may well become self-made millionaires, one must cope first with a new trend that is sweeping book publishing today.

In the past few years, publishing has become a thriving cottage industry. There is no complete list of all the new publishing houses that have sprung up; the number changes monthly. But one need do no more than pick up the paper to check the latest entries into the field. The two most recent companies were started by writers. Peter Wyden, the magazine executive and writer, founded

a firm to publish books with a popular sociological flavor. Dick Schaap, the sportswriter, just began Maddick Manuscripts, which is producing a series of books with a herd of sports stars. Schaap's company literally grew from the tremendous success he had with his book with Jerry Kramer, Instant Replay. Schaap's company is practically in the cottage category. He rented the apartment next door to his own to serve as an office. Bill Adler, the wit and wisdom fellow, has been packaging his own books for years. Jeremy Tarcher packages celebrity books on the West Coast.

The operative word in many of these new ventures is a phenomenon known in the trade as "packaging." Essentially, a packager comes up with an idea, an author and eventually a book. He then takes his package to a publishing house which provides—for a percentage—a sales organization to distribute the packager's book. In Chelsea House's case, a finished book is delivered to Random House for distribution, for a percentage of the list price of the book.

Although the entrepreneurial drive is an American tradition, it is amazing given the generally small profit margins of publishing, that the book business has attracted so many self-starters. The high cost of manufacturing a book, coupled with the 10, 12-and-one-half or 15 per cent royalty that authors demand, would seem to make most new publishing companies highly improbable.

Chelsea House has avoided paying royalties by shrewdly picking up material in the public domain—an example is the 1897 Sears, Roebuck Catalogue. This is a fairly sophisticated way to make a living in publishing, and in view of the backgrounds of Hector and

Publishers Harold Steinberg (left) and Bob Hector with Chelsea House topless secretary: "Bob here writes with his shirt off."

IT. b. 17/8/70 00 ...



## "Chelsea House, which publishes live books by dead authors, was founded by two aging hippies who may now become millionaires "36

Steinberg it is even more unusual.

Although it is true that Steinberg has worked for a living in the traditional sense of that word, it is also a fact that Hector never worked any longer than six months at any kind of job during his adult life. Hector was a hard-core unemployable before that phrase was taken over by the pop sociologists, and he is still baffled today by the concept

of "withholding."

Hector says he was born on January 28, 1921 ("of course I'm an Aquarius") in New York City and entered Oberlin College in 1941. Oberlin and Hector were not suited for each other and he came back to New York, where he took a job at Arnold Constable. He was a package collector; one of his chores was to be lowered by rope down the package chute to unclog package jams. After two weeks of being the dangling man, he gave up Constable's and went to work for a theatrical press agent. He wrote press releases, hung around backstage, ogled the girls and generally enjoyed himself.

He was drafted in early 1942, was taught Japanese, and toured Guadalcanal, Bougainville and New Guinea through the courtesy of the U.S. Army. Somewhere along the way he got a fragment of a shell in the buttocks, courtesy of the U.S. Navy. After his discharge, he discovered unemployment compensation-\$ 0 a week for 52 weeks from a grateful U.S. government. This was his first brush with welfare, and his later life was filled with intermittent visits to the unemployment office when he was active in the theatre.

After exhausting the potential of government relief, Hector went back to work as a press agent. He remembers only a few of the earlier plays he publicized, presentations such as Brooklyn Biarritz (which was a polite euphemism for Coney Island) and Popsie. "Everything had a bed in it," he says. In a year or so, Hector was admitted to the Broadway press agents' union, an affiliation that guaranteed him a minimum of \$125 a week when he was working. In 1951 he rented an apartment at 38 West 57th Street, above a store called the Corsetorium.

That apartment originally rented for \$60 a month; three years after he moved in, the rent was reduced by the Rent Control Commission to \$48 a month. It was a two-flight walk-up and one entered through the living room, which was roughly 18 feet long, 10 feet wide and at least 12 feet high. There was large shuttered window which,

as far as his friends know, went unwashed during the 14 years he lived in the apartment. At one end of the living room was another room, roughly eight feet by three feet, which the landlord called a bedroom. Hector used it as a free-form closet. At the other end of the living room was the utilities module -a kitchen with wretched equipment and a bath with no shower. Showing the typical ingenuity that he has displayed all his life. Hector created a shower by stringing a punctured hot water bottle from the faucet.

His life gradually became bound up in that tiny area of New York City known to the Post Office as New York 19. Breakfast at Riker's on the corner of Sixth Avenue and West 57th Street (this is the flagship of the Riker's chain, where the food is delivered from the kitchen to the customer on a rolling belt), lunch at the Sixth Avenue Delicatessen a block and a half from 57th Street (where the maître d' still greets him as "Red") and perhaps dinner at the Chinese restaurant across the street.

And yet in those days Hector was moving onward and upward. When he was employed, he was working for producers like Robert Whitehead and earning \$175 to \$275 a week. In the early 1950s, the theatre was still a vital force in New York City, but in the late fifties, a malaise set in. The theatre was shrinking drastically and work was hard to come by. "I would end up working about 20 weeks a year, one way or the other, making \$200 a week, and then I'd have another 20 weeks of unemployment insurance at \$55. With a \$48a-month rent, plus the I.B.M. cafeteria, I was just able to break even."

The I.B.M. cafeteria, at Madison Avenue and 57th Street, was a bit east for Hector but the food was cheap, good and filling. He got access to the cafeteria after writing a profile of S. Hurok (a former employer) for Think magazine. Occasionally, one of the I.B.M. guards at the cafeteria would stop him and ask who he was. Hector simply would say "Security" in a menacing tone and he was let in. During his I.B.M. cafeteria days he spent hours trying to find a secretary at I.B.M. to date. He felt that if he could only get his name put on the payroll, the organization was so gigantic that he never would be detected.

Hector's friends in the late fifties had established a club of sorts at the Russian Tea Room, next to Carnegie Hall. There was Hollis Alpert, the film critic and novelist; Harold Clurman, the di-

rector; Jimmy Gelb, the stage manager: Hershy Kay, the composer; Joseph Buloff of the Yiddish Theatre. Lou Jacobi occasionally sat in, as did Zero Mostel and Stella Adler. Maureen Stapleton might drop by, as might an erratic speechwriter for the American Jewish Committee named Harold Stein-

It was at this halfway house for theatre professionals that Hector met Steinberg. Nobody quite knew how to handle Steinberg because he was more eccentric than any of the other regulars who sat in the front booths of the Tea Room. His head was shaved bald, he had what looked suspiciously like hyperthyroid eves, a strange beard, and he talked loudly and seemed manic most of the time. Hector, on meeting him, thought he looked like Yul Brynner, who was very much in vogue then.

When one deals with Steinberg, facts tend to become elusive, truth blurs right before your eyes. According to Steinberg, he was born in 1927 on the Lower East Side. He also says that he volunteered for the Army right after Pearl Harbor at the age of 17, but in the next breath he says that he went into the Air Force in 1943—also at the age of 17. Hector says flatly that Steinberg is at least 60. Steinberg, ir. thinking the matter over, says he is "in his late

thirties.'

Steinberg admits he was one of the very early college dropouts and that he entered the armed forces sometime during World War II. After the war he vaguely recalls working for the Voice of America as a newswriter, for the CIO and UNRRA. In 1959 he went to work at the American Jewish Committee as a speechwriter and press agent for Commentary magazine. Theodore Solotaroff. now the editor of New American Review, worked for Commentary during the Steinberg era, and says, "He sort of cut up a lot and fitted in there in his own crazy was a kind of jester.'

Although teinleng was associated quite a few members of with and kne the quality lit on he really wasn't a member of that establishment. If he felt inhibited by his friend-rather-than-lover status with the intellectual crowd, he didn't show it. In 1963, he noticed that an item called the Executive Coloring Book was selling well as a novelty gift book. Steinberg decided that he could produce a novelty book as well as anyone else, so he concocted The Psychiatric Coloring Book, which he published in 1963 under the imprint of Fly By Night Press. It was successful in that it re-



The Chelsea boys (left to right): Jack Oppenheim, Jeffrey Steinberg, Steinberg, Hector, Fred Israel, Leon Friedman, Andrew Norman.

quired no capital to produce and netted Steinberg and his two partners \$8,000. Emboidened by this literary success, he moved on to Fidel Castro's First Reader, in English and Spanish, which was also published in 1963, but under a different imprint—Press on Press.

Hector and Steinberg kept in touch via the Russian Tea Room. It was during one of these late-night sessions that Steinberg unfolded this new business of publishing. In Hector's words, "I immediately attacked Steinberg and said, 'Where the hell did you get the money?' He said, 'It cost me \$40. First you get the artist to do a dummy of the book for nothing. Then I write the book. Then you go and take the dummy up to a distributor and he gives you a letter saying he will distribute so many copies of the book. Then you take this letter to a printer, and, based on the fact that the distributor will distribute, you get the printer to give you some credit. When you've set up the distributor and printer you get a royalty advance from the distributor and you pay the printer, if you feel like it."

This kind of business dealing appealed to Hector's lifestyle. The notion of creating something out of nothing was a concept that he could grasp. The turning point in their relationship came in

January, 1964, when Steinberg, who was living in the Chelsea Hotel on West 23rd Street, slipped on an icy sidewalk in front of a bar on 23rd Street and broke his hip. He landed in Flower-Fifth Avenue Hospital. Hector went to visit the felled proprietor of Fly By Night Press and Press on Press.

"Let's put out a book of animals," Hector said to Steinberg. "Just animals?" "Yeah," said Hector. Hector recalls, "He said we need an extra gimmick. 'How about Animals in Love?' "Today, in talking about that first book, Hector says, "You know, Harold's sex-crazy." Hector went back to West 57th Street and began calling the Associated Press for animal pictures. Hector describes the book as "a combination of Freud, Borscht Circuit and black humor."

That first book required a total investment of \$390 and it was distributed by Grosset & Dunlap. It was selling briskly until the president of Grosset discovered a caption, under a picture of a monkey embracing a cat, which said "Our children, of course, will be raised as Catholics." Grosset pulled the book off the market. Undaunted and flushed with a net profit of \$3,000, the two quickly produced four other books. At this point, Hector and Steinberg did not have even a letter of agreement bet-

ween them."This doesn't mean I wasn't worried about it," Hector says. They hit upon the notion of calling their fledgling company Chelsea House because they were working out of Steinberg's cluttered two-room apartment in the Chelsea Hotel. The telephone operator at the hotel answered the telephone by simply saying, "Chelsea." They realized that anyone calling the hotel wouldn't realize that Chelsea House was really the Chelsea Hotel, so they adopted the hotel's name. They also adopted a picture of the hotel that adorned its stationery. The picture found itself on Chelsea House stationery, and the two entrepreneurs were pleased that the 10-story hotel picture lent a dignity and substance to their company, especially when dealing with European publishers.

Nineteen sixty-five was not a particularly good year for either Hector or Steinberg. Hector drifted off to Paris with the notion of producing an American play about television (Nobody Loves an Albatross). The French did not understand American television in 1965 and after seven months Hector drifted back to New York. In the meantime, Steinberg's wife, Mary, had read a story in the Times describing the government's need for a collection of all the inaugural speeches that had

## "... They yell at each other, politic behind each other's back ... They are really more a happening than a publishing house .. 138

ever been made in U.S. history. Hector's contribution to this volume was a suggestion to sign up Arthur Schlesinger Jr. to write an introduction to the book. This was the first association that Schlesinger had with Hector and Steinberg and it deepened through the years to the point where Schlesinger now is the president of a Chelsea House subsidiary, University-

at-Large films.

Although the inaugural addresses sold for only \$4.95, it introduced Hector and Steinberg to a hitherto untapped field-reference books for libraries, edited by prestigious authorities in a field, and comprising material in the public domain. That casual reading of the Times has, in the past four years, spawned: Documentary History of Banking and Currency in the United States (introduction by Paul A. Samuelson, \$120), The Messages and Papers of Jefferson Davis and the Confederacy, 1861-1865 (introduction by Allan Nevins, \$28.50), Major Peace Treaties of Ancient and Medieval Hi tory, ca. 1300 B.C.-1648 (introduction by Arnold Toynbee, \$100) and at least a dozen others.

Before this ton of reference books was unleashed upon the unsuspecting libraries of the country, there were severe problems. Some time after Inaugural Addresses, during the summer of 1965, Hector and Steinberg had a fight. Neither will talk about it today, but knowing their gestalts, it is not hard to understand. Hector retired to West 57th Street to sulk. While sulking he produced a book on his own, which was derived from a sex-education manual used in Swedish schools. Steinberg was finally fired by an exasperated American Jewish Committee. Since it was summer, he turned his sights on East Hampton. That quiet community had never seen the likes of a Steinberg. He rented an enormous mansion, christened it Loxley (sic) Hall, and proceeded to sublet rooms (with kitchen and bath privileges) to friends. One survivor of an East Hampton summer has described it as a three-month, non-stop, exhausting psychodrama. "No one came out of it the way he went into it," says this person, whose psyche still quivers at the mention of Loxley Hall.

At this point, the narrative gets extremely complicated. Hector says that in the fall of 1965 he came up with a notion of producing a multi-volume work containing all of the State of the Union messages ever uttered by every President of the United States. A freelance

writer, Eric Lasher, says modestly that ners, and from all descriptions that was the idea was his and that Hector turned the idea into reality. Steinberg says that both Hector and Lasher are crazy: he says he hatched the idea over a tongue sandwich in the Sixth Avenue Delicatessen. Jack Oppenheim, a lawyer who also owns about 20 per cent of the company and who shortly will enter this tale, says: "We do seem to have an attribution problem in our company."

Regardless of the tongue sandwich, Hector and Steinberg forged ahead with The State of the Union Messages and almost immediately found themselves short of cash. They also found a talented history professor at C.C.N.Y. named Fred Israel to work as the editor on the project. Israel, fortuitously, joined the company later and in 1968 convinced the board of directors to publish the 1897 Sears, Roebuck Catalogue, which has sold some 130,000 copies at \$14.95 and has literally pro-due a catalogue backlash.

Although Israel had editorial skill, he did not have the cash to get The State of the Union Messages off the ground, but a disenchanted real-estate lawyer named Jack Oppenheim was intrigued with the project. Steinberg, who knew Oppenheim casually, convinced him that he ought to invest some money in The State of the Union Messages. Oppenheim, who admits that he is a gambler, gave Hector and Steinberg \$6,000 in January, 1966, to move the project ahead. Steinberg's mother-in-law, Maisie McCarthy, lent Steinberg the money to move out of the Chelsea Hotel into two rooms of offices at 485 Fifth Avenue.

The \$6,000 vanished, The State of the Union Messages was in the hands of the printer, there were bills outstanding all over town, and Hector privately confided to friends that if the book failed, he could be visited in jail. It sold about 5,000 copies at \$45 each and was a smashing success.

Oppenheim proved the extent of his gambling instinct by buying a third of the entire company for \$40,000, a sum which he borrowed from friends. When the deal was made in August, 1966, Hector and Steinberg offered Oppenheim the choice of being either a silent partner or a working partner. He said, "I wouldn't consider putting all this money in and letting you two guys run it unless I came full time." This was prudent on Oppenheim's part.

Oppenheim soon developed into the swing vote between the two part-

a hellish time. A year later Hector produced another potential investor named Andrew Norman. Norman hung around the offices for a few months, liked what he saw, and bought onefourth of the company from the three for \$280,000. A few months after Norman was a partner, Oppenheim felt that a stabilizing influence was at hand and he fled to Europe for a year. The last major investor to enter bedlam was a young financier, Stephen Wise, who paid roughly \$225,000 for 9 per cent of the company in June, 1968.

And so there they are, "psyched into this reference thing," as Steinberg puts it, publishing reference books for libraries, producing a line of trade books and expanding into the audio-visual industry and the educationalfilm business. They yell at each other, politic behind each other's back and have been known to fight vociferously over a \$50 ad in the Village Voice. They are really more a happening than

a publishing house.

In the first half of 1969, Chelsea House had sales of \$1 million, which is not large by any means, but considering that three years ago they were borrowing office rent from Steinberg's mother-inlaw, they haven't done too badly, either. The entire year of 1969 was spent in dozens of discussions with investment houses and Wall Street brokerage firms. Chelsea House may go public, it may not; it may seek private investors, it may decide not to; it may take any one of a dozen paths to enlarge its capitalization.

Hector and Steinberg have coexisted these past four years without too much violence. (In December, Hector so provoked Steinberg that Steinberg slammed his right hand into a wall and broke it. Hector later said, "I'm now trying to get him to break his left hand.") Steinberg lives in a seven-room cooperative apartment on West 67th Street with his wife and two younger children. Hector learned the intricacies of cashing a regular paycheck and as soon as he did he left 38 West 57th Street and moved to a duplex at 140 West 57th Street. (The Corsetorium has moved: Lefrak cleared Hector's landmark.) He still eats at Riker's. He still peeks into the Russian Tea Room at night, and his relationship with women is still "episodic." Recently, when he was in one of his manic-creative moods, he said, "Hey, why don't we do a 'Fanny Hill Popup Book.'" Hector was positively euphoric at the idea.

Defendant's Exhibit B

Chelsea House Educational Communications, Inc., Financial Statement dated October 31st, prepared by Price Waterhouse & Co. TISE OF PROCEED

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CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

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FINANCIAL STATEMENTS

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OCTOBER 31, 1969

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Price Wyfeigiouse & Co.

January 27, 1970

To the Board of Directors

Chelsea House Educational Communications, Inc.

We have examined the accompanying consolidated balance sheet of Chelsea House Educational Communications, Inc. as of October 31, 1969 and the related statement of consolidated loss and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Physical inventories were not taken by the company at October 31, 1968. However, we satisfied ourselves as to the reasonableness of the amounts thereof by confirmation with the manufacturers and distributors used by the company and by performing such other procedures as we considered appropriate.

Note 8 to the consolidated financial statements indicates that the company is contingently liable at October 31, 1969 for the repayment to a publisher/distributor of approximately \$153,000 in the event that certain contracts are not completed by specified dates. As indicated in Note 10 to the consolidated financial statements, the balance sheet includes \$400,828 of film cost inventory, a significant portion of which pertains to uncompleted films and films for which there have been no material sales.

In our opinion, subject to the resolution of the contingency and the realization of film cost inventory referred to in the preceding paragraph, the accompanying financial statements present fairly the consolidated financial position of Chelsea House Educational Communications, Inc. and subsidiary at October 31, 1969 and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

. Price Witakuse + Co.

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CONSOLIDATED BALANCE SHEET	141
OCTOBER 31, 1969	
Assets	
Current assets:-	\$ 54,955
Accounts receivable (Note 6)	
Less - Reserve for sales returns	84,618
Unbilled costs and accrued earnings on contracts	87,077
in process (Notes 2 and 8)	0,,0
Inventories (Notes 6, 9 and 10): Books 281,432	
Film costs 400,828	682,260
Prepaid expenses	57,425
Total current assets	966,335
Bookplates, less accumulated amortization	
of \$11,363 (Note 11)	20,452
Royalty advances	34,586
Duraiture equipment and leasehold improvements,	
at cost less accumulated depreciation and	22,872
amortization of \$2,886 (Note 11)	58,800
Film library (Note 10)	11,611
Deposits and miscellaneous	
Organization costs less accumulated amortization of \$2,150 (Note 11)	2,101
Total assets	\$1,116,757
Liabilities and stockholders' equity	
Current liabilities: Notes payable (Note 6)	\$ 358,333
Accounts payable and accrued expenses	308,859 233,192
Advances from distributor (Note 8) Accrued taxes payable	7.476
Total current liabilities	907.860
Other liabilities:	12 000
Notes payable (Note 6)	13,800 110,000
4-1/2% sinking fund debenture (Note 7)	123.800
Stockholders' equity (Note 4):-	
Common stock, S.OI par value:	
Authorized - 2,000,000 shares Tissued and outstanding - 687,469 shares	6,875
Calital in excess of par value	175,087
Deficit (Note 7)	$\frac{(66,565)}{115,397}$
Less - Amount arising from issuance of restricted stock	(30,300)
	85,097
Commitments and contingent liability (Note 8)	\$1,116,757
Total liabilities and stockholders' equity	7. 7

## CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

## CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

## FOR THE YEAR ENDED OUTOBER 31, 1969

Sales	\$1,197,501
Less - Sales commissions	242,026
Less - Sales Commission	955,475
Costs and expenses: Direct costs and operating expenses	413,545
Selling, general and administrative	544,801
Interest	27,447
Interest	985,793
Net loss for the year (Note 3)	. 30,318
	36,247
Deficit, beginning of year	30, 47
Deficit, end of year	\$ 66,565
Net loss per average common share outstanding	\$.04

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TOBER 31, 1969

### NOTE 1 - PRINCIPLES OF CONSOLIDATION:

The accompanying financial statements include the accounts of the company and its 96% owned subsidiary, University-at-Large Programs, Inc.

The 4% minority stockholder in University-at-Large Programs, Inc. has the right under an agreement to receive annually 2% of the subsidiary's net income after taxes. Because the subsidiary has operated at a loss, no amounts have been provided for such payments. The company may under certain conditions be obligated to pay the minority stockholder up to \$12,000 at such time or times as advances from the parent are repaid by the subsidiary.

### NOTE 2 - SALES:

A majority of the company's gross sales for the year ended October 31, 1969 were derived from one published book.

Approximately 22% of the company's gross sales were under contracts calling for the development by the company of manuscripts for delivery to a publisher/distributor (see Note 8). Payments are received at various times during the development of the manuscripts. A portion of the total contract price is recorded as income based on management's estimate of the percentage of completion achieved with respect to each such contract.

Gross sales from films amounted to approximately 14% of gross sales.

### NOTE 3 - INCOME TAXES:

Income on certain contracts is recorded for financial accounting purposes in excess of amounts reported for income tax purposes. Also, the value of restricted stock (Note 4) is deductible for income tax purposes when restrictions lapse whereas expenses for accounting purposes have been reported in earlier periods.

No income tax provision is required for the current year. The company has net operating losses available for book purposes expiring \$32,000 in 1973 and \$30,000 in 1974. After consideration of the differences in reporting income for accounting and tax purposes referred to in the preceding paragraph, net operating losses for tax purposes are, available in the amounts of \$138,000 and \$128,000 which expire in 1973 and 1974, respectively.

### FRE 4 - RECAPITALIZATION:

On June 20, 1969, by amendment to its certificate of incorporation, the company increased its number of authorized shares of common stock to 2,000,000. 360 shares previously outstanding were exchanged for 676,530 new shares of \$.01 par value common stock.

On June 30, 1969, 10,939 shares of common stock were issued for services performed and/or to be performed by three persons. Certain of the shares issued are subject to restrictions and reversion to the company should employment be terminated under certain conditions before specified dates. The 10,939 shares are included in issued and outstanding shares at October 31, 1969. The par value of the shares has been credited to the common stock account and the excess (\$54,586) of the estimated fair value over the par value has been credited to capital in excess of par value. Compensation expense is being charged for the valuation assigned to the shares over the period November 1, 1966 through June 30, 1971, the date on which the final restrictions lapse. \$10,643 was charged to expense for the current year and \$30,300 will be charged against income in future periods. That amount has been deducted from stockholders' equity in the accompanying balance sheet. expense related to the foregoing transactions is deductible by the company for income tax purposes in the years in which the restrictions lapse.

### NOTE 5 - QUALIFIED STOCK OPTION PLAN:

The company has a stock option plan which became effective June 13, 1969. The plan permits the granting of options, which are intended to be "qualified" stock options under the provisions of the Internal Revenue Code, to selected employees. An individual employee may be granted an option or options to purchase shares of common stock at an option price representing 100% of the fair market value of the common stock on the date upon which the option is granted. The options expire five years from the date of issuance, and may not, except in the case of termination of employment by death, be exercised after termination of employment of the option holder. Options may not be granted to employees owning more than 5% of the outstanding common stock and no option may be made exercisable earlier than one year from the date of grant thereof.

The plan will terminate no later than June 12, 1979 and no more than 25,000 shares (subject to adjustment in certain cases to prevent dilution) may be issued under it.

As at October 31, 1969, one option to purchase 3,500 shares was outstanding under the plan, which option is exercisable at \$10 per share and expires June 12, 1974.

## NOTE 6 - NOTES PAYABLE:

Notes payable at October 31, 1970 comprised the following:

Bank: 9-1/2% due November 10, 1969 9-1/2% due November 10, 1969 9-1/2% due December 5, 1969 9-1/2% due January 27, 1970 Due on demand (see below)	\$ 50,000 75,000 75,000 75,000 55,733 330,733
For purchase of film library (Note 10): 6% due May 1, 1969 6% due February 1, 1970 6% due February 1, 1971	13,800 13,800 13,800 41,400
Less - Noncurrent portion  Due currently	372,133 13,800 \$358,333

Receivables from the sale of two films (Notes 2 and 10) which at October 31, 1969 amounted to \$87,000 and the related films carried in the accounts at amortized cost of \$26,700 were assigned as security for the \$55,733 bank loan above which is payable by the subsidiary company. This debt bears interest at the rate of 1% above the bank's prime commercial rate and is payable in quarterly instalments of amounts equal mercial rate and is payable in quarterly instalments of amounts equal to the amount due from the distributor of the two films. The bank has to the amount due from the distributor of the two films. The bank has to the amount due from the distributor of such note through agreed that no demand shall be made for payment of such note through note has occurred.

The four 9-1/2% notes payable to a bank at October 31, 1969 were replaced on January 27, 1970 by a \$275,000 9-1/2% note which will become due March 2, 1970.

## NOTE 7 - 4-1/2% SINKING FUND DEBENTURE:

The debenture agreement with respect to the \$110,000, 4-1/21 debenture payable to a major stockholder requires the company to make sinking fund instalments in each year commencing on January 31, 1972 equal to the lower of \$10,000 or 5% of consolidated pretax profits of the company in excess of \$50,000 for the preceding fiscal year. Under the agreement, if additional debentures are issued, additional sinking fund instalments are required to be made. So long as any debenture is outstanding under the debenture agreement, the company may not declare any dividend on its capital stock (other than stock dividends) unless any dividend instalment of not less than \$10,000 has been made during sinking fund instalment of not less than \$10,000 has been made during the preceding fiscal year. The debenture is subordinate to certain etclared indebtedness of the company. The company may prepay this indebtedness at its option.

TE 8 - COMMITMENTS AND CONTINGENT

The company leases its office space for an approximate annual rental increasing from \$44,000; to \$48,000 through January 31, 1976.

The company has entered into contracts for the employment of four officer/shareholders at annual salaries aggregating \$95,000 through October 31, 1970 and \$115,000 through October 31, 1971. In addition, pursuant to a contract expiring June 1971, the president of the subsidiary company receives an annual salary of \$20,000. He also receives certain fees and royalties in connection with production of films by the subsidiary and for editorial services provided the parent company

The company has entered into several contracts calling for the development and delivery by the company of manuscripts by specified dates (Note 2). The company has not delivered three manuscripts by the required dates and new deadlines have been established. Respecting two of these manuscripts, the publisher/distributor has advised the company that, should the revised deadlines not be met, it plans to exercise its right to cancel the contracts. In that event, the company might have to refund approximately \$153,000 to the publisher/distributor and the loss would be increased by \$132,272 reflecting reversal of all income accrued on such contracts prior to October 31, 1969.

The advances referred to in the preceding paragraph have been recorded as reductions of unbilled costs and accrued earnings on contracts in process. Advances included in current liabilities in the amount of \$233,192 pertain to contracts other than those referred to above.

### NOTE 9 - INVENTORIES OF BOOKS:

Inventories of books are valued at the lower of cost (first-in, first-out basis) or market. Major classifications at October 31, 1969 are as follows:

Bound books \$ 64,535 Work in process 216,897 \$281,432

## NOTE 10 - FILM INVENTORY AND FILM LIBRARY:

Film costs net of amortization included in inventory at October 31, 1969 comprised the following:

16-millimeter films \$278,777 8-millimeter films 122,051 \$400,828

Net sales of 16-millimeter films related primarily to two of five completed films and amounted to \$166,500 for the year. Ten 16-7 millimeter films were in process at October 31, 1969. There were no sales of 8-millimeter films, a substantial portion of which were in process.

Direct operating costs are charged with the amortization of deferred film costs on the basis of the relationship of reported revenue to management's estimate of total anticipated revenue with respect to each film.

A film library was purchased in 1968 for cash of \$17,400 and notes payable (Note 6) of \$41,400. The film library is pledged as security for these notes. The company has initiated a legal action to rescind the purchase based on an alleged breach of warranty in the purchase contract and has not paid one note due May 1, 1969 pending the outcome of the action. Should that action be fully successful, the asset and related notes payable would be eliminated and cash paid would be returned. The effect of such rescission on the results of operations would not be material.

## NOTE 11 - DEPRECIATION AND AMORTIZATION:

Depreciation and amortization for bookplates, furniture, equipment, leasehold improvements and organization costs are computed by the straight-line method and amounted to approximately \$11,900 for the year ended October 31, 1969.

Defendant's Exhibit C

Preliminary Prospectus dat d July 29, 1969 of Chelsea House Educational Communications, Inc.

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EXHIBIT U. B. DIST. COURS PECTUS B. D. OF N. W.

200,000 SHARES

### Chelsea House Educational Communications, Inc.

Common Stock

(Par Value \$.01 per share)

rior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price has been determined by the Company, and has no relationship to recognized criteria of value, such as book value, sales or earnings.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This offering involves:

(a) Special risks concerning the Company. For information concerning such risks, see "Introductory Statement", page 3.

(b) Immediate substantial dilution of the book value of the stock from the public offering price. For information concerning such dilution, see page 4.

The Company is offering hereby up to 200,000 shares of its Common Stock at a price to the public of \$10 per share. The nature of the Company's offering is such that unless payment for at least 100,000 shares of the Common Stock of the Company is received on or before , 1969, the Company will not sell any such shares. (See "Nature of the Offer of Common Stock").

The shares will be sold directly by officers, directors and employees of the Company (who will receive no discount or commission for their efforts), and may also be sold through broker-dealers. There is, however, no arrangement with any broker-dealer to ell any of the Common Stock offered hereby. To the extent that shares are sold through broker-dealers, the Company will pay the ordinary and usual commissions charged for transactions in the over-the-counter market, which are estimated at \$ per hundred shares.

Based upon the foregoing, assuming that all of the Common Stock issued pursuant to this prospectus was sold by officers, directors and employees, to whom no discount or commission would be allowed or paid, the Company would receive gross and net proceeds of from \$1.000,000 (if 100,000 shares were issued) to \$2,000,000 (if 200,000 shares were issued). Assuming that all such shares issued were sold through broker-dealers, the Company would receive gross proceeds in the same amount as set forth above, but would pay commissions ranging from \$\)

(if 100,000 shares were issued) to \$\)
(if 200,000 shares were issued), and accordingly would receive net proceeds of from \$\)
In the event that less than 100,000 shares were sold by the Company, the Company could nevertheless have incurred brokerage commissions of up to \$\)
In addition, the Company will incur expenses with respect to this offer (other than brokerage commissions) estimated at \$\)

Officers, directors, employees and broker-dealers who engage in the sale of the Common Stock may be deemed to be underwriters as defined in the Securities Act of 1933.

The above shares of Common Stock are being offered by the Company, subject to prior sale and to withdrawal of such offer, or to rejection of orders in whole or in part, without notice, and subject to the approval of certain legal matters.

The date of this Prospectus is

, 1969.

Koding

Deft A

12/18/20 Signif

Jack Fine, Reporter

ry offers to buy he accepted private of an offer to buy nor shall in or qualification under the sec Commission blez ed len or ! consistate on offer to sell or rate would be unlawful pri artiles has been filed with fits among an ordered articles of A recistration statement releting to these securities has been incordated berein is subject to completion or amendment. The statement becomes effective. This prospective shall not cousts securities to any state to which such offer, solicitation or rate of No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in the Registration Statement containing this Prospectus. If given or made, such representations must not be relied upon as having been authorized by the Company. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any State in which such offer, solicitation or sale is unlawful.

Until , 1969 (90 days following the date of this offering) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus.

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#### NATURE OF THE OFFER OF COMMON STOCK

The offer of up to 200,000 shares of Common Stock of the Company made hereby shall extend from the date hereof until 3:00 P.M., New York City time,
time, the Company has not received payment for an aggregate of at least 100,000 shares of stock, it will return the payments made on account of the purchases of such stock, and will declare the offer withdrawn. Pending final disposition of such payments, the moneys received by the Company will be held in a special account with Chemical Bank, New York, N. Y.

Commencing on the date on which the Company receives payment for the 100,000th share of stock offered hereby, it shall promptly transmit certificates for shares of Common Stock to the purchasers thereof, and will continue to transmit certificates as purchases are made, until

Persons who wish to purchase shares of the Common Stock offered hereby may do so by remitting payment therefor in an amount equal to \$10 for each share to be purchased, to the Company at its office at 70 West 40th Street, New York City, New York 10018. All payments must be made by check or money order. In addition, orders for shares offered hereby may be placed through brokers. Each payment shall constitute an irrevocable offer to purchase by the purchaser.

#### THE COMPANY

Chelsea House Educational Communications, Inc. is engaged in the publication of books and the production of films pertaining generally to the fields of history, the social sciences and the arts. Until mid-1968, all of the Company's revenues resulted from sales to the educational market of multi-volume reference works, published under the name "Chelsea House Publishers". During the past year, the Company has entered the field of hard-cover and paperback books for sale to the consumer market. In the fall of 1968, University-at-Large Programs, Inc., a subsidiary of the Company, began to market 16 millimeter sound and color educational films. In addition, the Company recently began producing a series of Super 8 millimeter film cartridges, for sale with audio-visual rear screen projectors to schools and libraries.

Most of the Company's multi-volume reference works are distributed by McGraw-Hill, Inc. and R. R. Bowker Company. Random House, Inc., has contracted to distribute the Company's hard-cover and paperback books and Sterling Movies, Inc., distributes certain of the 16 millimeter films. The Company also engages in direct mail selling of its books and films.

The Company was organized under the laws of the State of New York on November 3, 1966, as Lochsley Hall, Inc., to succeed to the business conducted by a general partnership formed in January, 1966. On June 20, 1969 the Certificate of Incorporation was amended to change the name of the Company to Chelsea House Educational Communications, Inc. The Company owns 96% of the outstanding capital stock of University-at-Large Programs, Inc. The term "Company" as used herein shall be deemed to include both Chelsea House Educational Communications, Inc. and its subsidiary. The Company maintains its principal executive office at 70 West 40th Street, New York, New York 10018.

#### INTRODUCTORY STATEMENT

In analyzing this offering, investors should carefully consider, among other factors, the following matters:

1. The Company is in competition in all areas of its business with a number of large book publishing and educational film production organizations, many of which have resources considerably larger than those of the Company.

- 2. Most of the Company's products are currently being distributed by major book publishing and film organizations. However, there is no assurance that in the future the Company will continue to be able to secure distribution arrangements with these or similar companies.
- 3. The Company is expanding its business into several new fields of operation, and there can be no assurance that its products in these fields will meet with market acceptance.
- 4. Many of the Company's products are sold to educational institutions which are dependent to some extent upon government subsidy for funds. There is no assurance that such government subsidies will continue in the future.
- 5. Prior to the offering made hereby, the four principal shareholders of the Company owned in the aggregate approximately 89% of the outstanding shares of Common Stock of the Company. Following this offering, they will own approximately 69% of such outstanding shares and will be in the position to elect all of the directors of, and otherwise to control, the Company.
- 6. One of the Company's publications, The 1897 Sears Roebuck Catalogue, contributed substantially to the Company's sales and earnings for the fiscal year ended October 31, 1968 and the six months ended April 30, 1969. There is no assurance that this book will continue to sell as well in the future or that the Company will succeed in publishing other books which will meet with equivalent market acceptance.
- 7. At April 30, 1969, \$256,801 of the Company's assets (net of related amortization), equal to 116% of the Company's net worth on that date, represented costs of producing eleven educational 16 mm. films. Although the Company has realized total revenues to April 30, 1969 of \$192,300 from sales of two of such films, there can be no assurance that the Company will be able in the future to realize significant sales on account of its educational 16 mm. films.
- 8. In the event that the Company sells less than the entire 200,000 shares offered hereby, it will receive proceeds in an amount less than its management deems desirable to fund projects proposed to be undertaken by the Company. Certain of such projects would have to be cancelled or curtailed, which might have a materially adverse effect on the Company's operations.

#### Dilution

The net tangible book value as of April 30, 1969 of the 699,969 shares of Common Stock of the Company outstanding immediately prior to this offering was \$.31 per share. After giving effect to the sale of 200,000 shares of Common Stock to the public and the receipt of net proceeds of approximately \$ per share, which would similarly be the book value of the shares purchased by the public at \$ per share, and thus there will be an immediate dilution of \$ per share in such tangible book value to the purchasers of the shares offered hereby.

In the event that the Company sells only 100,000 shares to the public, it would receive net proceeds of approximately \$\\$, and the net tangible book value of the 699,969 shares of stock outstanding immediately prior to this offering would be approximately \$\\$ per share, which would similarly be the book value of the shares purchased by the public at \$10 per share and thus there will be an immediate dilution of \$\\$ per share in such tangible book value to the purchasers of the shares offered hereby.

Further dilution may occur upon the exercise of options granted and to be granted pursuant to the Company's Qualified Stock Option Plan (See "Qualified Stock Option Plan").

#### USE OF PROCEEDS

The Company expects to incur costs over the next two years in the production of the following projects (see "Business"):

Project	Estimated Cost
Multi-volume reference works (approximately 14 titles)	\$1,000.000
Multi-volume reference works (approximately Multi-subject dictionary	700,000
Consumer books	
Super 8 mm. sound film cartridges	
16 mm. educational films (approximately 12 films)	240,000
Total	\$2,415,000

Net proceeds ranging from approximately \$ to \$ will be received by the Company after payment of expenses hereunder. All of the proceeds from the sale of the Common Stock being offered hereby will initially form part of the Company's working capital, and will be applied together with any internally generated funds to finance a portion of the costs set forth above and for other corporate purposes. Pending application of the proceeds in the manner described, the Company may invest such moneys in short-term debt securities.

#### CAPITALIZATION

The capitalization of the Company at June 30, 1969, and after giving effect to the sale of 200,000 shares of Common Stock pursuant to this prospectus, is as follows:

shares of Common Stock pursuant to this pro-	Authorized	. Issued	As Adjusted
Note payable to bank(1)		\$ 60.000	\$ 60.000
7½-8½% Notes payable	_	75,000 41,400	<b>75.000 41,400</b>
4½% Sinking Fund Debenture, due January 31, 1983(3) Common Stock, \$.01 par value		110,000 . 699,969 shs.(4)	110,000 899,969 shs.(4)

(1) Bears interest at a rate of 1% above the prime rate as the same may vary from time to time. See "Description of Securities" herein.

(2) An installment in the amount of \$13.800 which was due May 1, 1969 has been contested by the Company and has not been paid. See "Pending Litigation" and "Business—Educational Films" herein.
(3) The debenture, held by Andrew E. Norman, an officer and director of the Company, is subordinated to all

indebtedness of the Company to banks and other lending institutions.

(4) Not including 25,000 shares reserved for issuance pursuant to the Company's Qualified Stock Option Plan.

With respect to the Company's obligations under long-term leases, see "Property and Employees", and Note 7 of the Notes to Consolidated Financial Statements.

References in this prospectus to number of shares of the Common Stock of the Company have been adjusted to reflect the issuance effective June 20, 1969 of 1879.25 shares for each share outstanding at that date.

#### DIVIDENDS

On May 24, 1967, the Company declared a dividend on its Common Stock in the amount of \$.06

The Company has not declared any dividends on its Common Stock since May 24, 1967. It has been the Company's policy to utilize earnings to finance its growth and it is anticipated that the Company will continue to do so. Furthermore, under the terms of its 4½% Sinking Fund Debenture due January 31, 1983, the Company may not pay cash dividends on its Common Stock prior to November 1, 1971, and may not thereafter pay cash dividends unless sinking fund obligations or other specified payments with respect to the debenture have been satisfied (see "Description of Securities").

### CONSOLIDATED STATEMENT OF OPERATIONS

The following consolidated statement of operations of Chelsea House Educational Communications, Inc. and subsidiary company, for the year ended October 31, 1968 and the pro forma consolidated statement of operations of the predecessor partnership and Subchapter S corporation for the ten months ended October 31, 1966 and year ended October 31, 1967 has been examined by Price Waterhouse & Co., independent accountants, whose opinion (which is subject to the resolution of the contingency as described in Note 7 to the consolidated financial statements) is included elsewhere in this prospectus. In the opinion of the Company, the unaudited statement of operations for the six months ended April 30, 1968 and 1969 includes all adjustments consisting only of normal and recurring adjustments, necessary for a fair presentation of the results of operations for such periods. The statement gives effect to certain pro format adjustments described in Note B below. The results of operations for the six months ended April 30, 1969 are not necessarily indicative of the results of operations for the full fiscal year ending October 31, 1969. The statement should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus.

elsewhere in this Prospectus.	Ten months	Year e		Six month April	s ended
	October 31, 1966	1967	1968	1968	1969
	Pro Forma (	Note B)		(Unaud	ited)
Sales Less sales commissions	\$ 68,972	\$229,654	\$535,09 <b>3</b> (68,95 <b>7</b> )	\$ 18,150	\$1,005,3 <b>73</b> (19 <b>7</b> ,551)
Net sales		229,654	466,136	18,150	807,822
Other income	_	_	12,068	1,175	
Other income	68,972	229,654 .	478,204	19,325	807,822
Costs and expenses: (Note 11)  Direct costs and operating expenses  Selling, general and administrative (Note 4)  Interest	34,676 31,290 135 66,101	91,178 103,517 516 195,211	189,843 318,565 6,043 514,451	8,753 107,847 493 117,093	303,948 259,138 8,012 571,098
Income (loss) before provision for income taxes and extraordinary items	2,871	34.443	(36 247)	(97,768)	236,724
Provision for income taxes:— Federal: Due currently	. 600	8,000	_ =	=	26,000 76,000
State and local: Due currently Deferred	. 200	4,000	=	Ξ	7,000 21,000
Deterred	800	12,000	_	_	130,000
!	-	22,443	(36,247)	(97,768)	*106.724
Income (loss) before extraordinary item Extraordinary Item - become tax reduction resulting from utilization of loss carryforward (Note 3)		\$ 22,443	\$(36,247)	\$(97,768)	21,000 \$ 127,724
Net income (loss) for the period	. \$ 2,071	\$ 40,410	1	,	t- · ·

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Average number of shares outstanding	563,775	563,775	638,945	655,714	, ,530
Per share of common stock, based on average number of shares outstanding after giving effect to recapitalization				٠.	
(Note 4): Income (loss) before extraordinary item	\$ .01	\$ .04	\$(.06)	\$(.15)	\$ .16
Extraordinary item					03_
Net income (loss) for the period	\$ .01	\$ .04	\$(.06)	\$(.15)	\$ .19
Dividend		\$ .06			
Notes:		Firmaint 6	tatamente ani	nearing elsew	here in this

(A) Numerical note references are to Notes to Consolidated Financial Statements appearing

(B) Pro for	rma adjustments	consist of	the !	following:
-------------	-----------------	------------	-------	------------

Net income of predecessor partnership and Sub- chapter S corporation before pro forma adjustments	967
Tara are forms adjustments:	0.443
Salaries of the partners 16,197	8,000
Pro forma net income as above \$ 2,071 \$ 2.	2,443

The statement includes the results of operations of the business operating as a partnership (during 10 months ended October 31, 1966), as a corporation availing itself of the provisions of Subchapter S of the Internal Revenue Code which permit the earnings or losses of a corporation to be passed directly to its shareholders' individual tax returns (during the fiscal year ended October 31, 1967) and as a corporation subject to federal income taxes thereafter. The adjustments include provisions for federal income taxes which would have been payable had the company been taxed at applicable corporate rates and salaries and drawings of the partners (for the ten months ended October 31, 1966) which have been included in selling, general and administrative expenses.

The increase in sales and net income during the six months ended October 31, 1968, and the six months ended April 30, 1969, in comparison with previous periods, is attributable primarily to the following factors: (1) in July 1968 the Company commenced marketing The 1897 Sears Roebuck Catalogue, which, produced gross sales of \$296,000 from July 1968 to October 31, 1968, and \$587,000 during the six months ended April 30, 1969 (2) in 1968 the Company entered into contracts with McGraw-Hill, Inc., under which it began to record, on a percentage of completion basis, payments received or to be received from McGraw-Hill for co-publication rights, (3) during the second half of 1968 and the first half of 1969, the Company commenced selling multi-volume reference works which were in the developmental stage prior thereto and (4) in 1969, the Company commenced selling its 16 mm. education film reels. See "Business."

#### BUSINESS

The Company is engaged in the publication of books and production of films for sale primarily to libraries, colleges and schools. Until mid-1968, all publications sold by the Company were multi-volume reference works published under the name "Chelsea House Publishers", which product still accounts for a large percentage of the Company's sales and earnings (see "Contributions to Gross Revenues" herein). In July 1968, the Company began the publication of hard-cover books for the consumer market, and revenues from the sale of one of the Company's hard-cover consumer books contributed substantially to the Company's gross sales during the fiscal year ended October 31, 1968 and the six months ended April 30, 1969. The Company has also recently developed a series of film cartridges and a series of 16 millimeter films for distribution primarily to the educational market, and is preparing a line of paperback consumer books expected to be ready for distribution by Fall 1969.

#### Multi-volume Reference Works

#### General

The Company's multi-volume reference works are typically designed to make available in one collection to students, teachers and researchers, widely dispersed documents, interpretive and analytic essays, and other materials, indexed and placed in historical context by leading authorities. As at June 30, 1969, the Company had published, under the name "Chelsea House Publishers", a total of seven multivolume reference works dealing with various subjects pertaining to the social sciences, particularly in the fields of history, law and the judicial process. The works range from two to five volumes and from 760 to 3,264 pages in length, and from \$27.50 to \$125 per set in retail price. Such works generally consist of either (1) a collection of documents pertaining to a specific subject, edited and with text by recognized authorities on the subject or (2) a collection of essays (supplemented, in some cases, with documentary material) on a particular subject by authorities under contract with the Company specifically for the work, and edited by a recognized authority.

The seven titles currently being marketed are:  Title	Authored or Edited by	Introductory Essay and for Editorial Supervision by
The State of the Union Messages of the Presidents 1789-1966 (3 vols.)	Fred L. Israel	Arthur M. Schlesinger, jr.
Major Peace Treaties of Modern History (4 vols.)	Fred L. Israel	Arnold Toynbee
Messages and Papers of Jefferson Davis and the Confederacy (2 vols.)	James Richardson	Allan Nevins
The History of British India (4 vols.)	James Mill	John Kenneth Galbraith
The Documentary History of Banking and Currency (4 vols.)	Herman Kroos	Paul A. Samuelson
The Justices of the U. S. Supreme Court, 1789- 1969: Their Lives and Major Opinions (4 vols.)	Leon Friedman, Fred L. Israel	Louis H. Pollak
Statutory History of the United States (first 4 vols. in series)	Bernard Schwartz, Robert Stevens, Robert F. Koretz	Bernard Schwartz

The Company is also undertaking publication of a basic defining reference source on all the social science disciplines, including sociology, psychology, economics, historiography, statistics, archaeology, and anthropology, to be entitled the *Dictionary of the Social Sciences*. The title is expected to be completed in Fall 1971 at an approximate cost of \$700,000.

#### Production

The Company undertakes all steps necessary to deliver camera-ready copy (i.e., the manuscript in either page-proof or film form ready for manufacture) of each multi-volume reference work which it publishes. The Company selects the title, hires the editor and authors, acquires and organizes the materials for the manuscript, and handles the details of preparing the manuscript, including the copyreading, proofreading and typesetting. Editors and authors are generally paid by the Company on a fee, rather than a royalty, basis. The time required in preparing a manuscript has ranged from three to twenty-four months.

With certain exceptions, the manufacture and distribution of the books and related advertising or sales promotion are undertaken and paid for by other publishing houses who have agreed to distribute the books. In the case of certain titles, the Company's production costs are financed by advances from such distributors (see "Distribution" herein.)

#### Distribution

The Company's multi-volume reference works are sold primarily to colleges, schools and libraries. Of the seven multi-volume reference book titles which are presently being sold, four are being distributed pursuant to contracts with either McGraw-Hill, Inc. ("McGraw") or R. R. Bowker Company ("Bowker"). Two other titles were bought outright by Bowker and the seventh is being distributed by the Company through direct mail sales. Furthermore, the Company currently has contracts with McGraw for the distribution of four additional reference titles, which are in various stages of preparation.

Under its arrangements with McGraw, the Company enters into a separate contract with respect to the publication and distribution of each title accepted by McGraw. These contracts require the Company to deliver camera-ready copy to McGraw by a certain date. McGraw is given sole distribution rights to the title, and is required to manufacture and distribute the title at its own expense. Typically, McGraw makes an advance payment for the right to distribute a certain number of copies, payment being made as follows: (1) an amount upon the signing of the contract, (2) a progress payment, and (3) a sum upon delivery of the copy. In event of default in delivery of the camera-ready copy, such advances would be required to be returned. McGraw has the right to require revision of the copy. As to any books distributed by McGraw above the number covered by the advance payment, the Company receives 50% of McGraw's net profits (as defined in the contracts) from the sale of the books.

Under the Company's arrangements with Bowker, Bowker undertakes the manufacture and promotion of the title which it is distributing (The Justices of the U.S. Supreme Court, 1789-1969: Their Lives and Major Opinions, 4 vols.), and pays all editorial production, manufacture, distribution and advertising costs. The net receipts from the sale of the title will be applied to reimburse Bowker for its editorial, production, manufacturing, distribution and advertising costs, and thereafter the Company will receive 50% of the net profit.

Since distribution contracts with McGraw and Bowker are entered into on the basis of individual projects, there can be no assurance that any of the Company's future projects will be accepted by either of them for distribution, or that the relationship with either or both of them will continue. Since at the present the Company has no sales force, if the arrangements were discontinued, the Company would either attempt to secure an arrangement with other publishing firms or undertake the distribution itself through direct mail distribution and/or by creating a sales force.

#### Consumer Publications

The C mpany began publishing hard-cover books for sale to the consumer market with the introduction of The 1897 Sears Roebuck Catalogue in July 1968. As of June 30, 1969, the Company had sold 105,000 copies of that title. Between late May and mid-July 1969, the Company published the following four additional titles, for which no sales figures are currently available: Jack Johnson is a Dandy: An Autobiography; The Warren Court: A Critical Analysis; Argument: The Complete Oral Argument Before the Supreme Court in Brown v. Board of Education of Topeka; and The Handbook of Gasoline Automobiles, 1904. Five additional titles (including The Drawings of Claes Oldenbur, The Drawings of Roy Lichtenstein and The Alpine Affair—a suspense novel) are in preparation and are scheduled to be published in the Fall of 1969.

The Company undertakes all the steps in the preparation and manufacture of such books, from selection of topics through printing and binding the book (the printing and binding is handled for the Company on a contract basis by various printing houses). The Company itself initially handled distribution of its first consumer publication through solicitation of mail orders. However, since the Fall of 1968, that book and the remainder of its hard-cover consumer books currently being sold are, and future hard-cover consumer books will be, distributed pursuant to a contract with Random House, Inc. Under the contract, the Company pays a commission based upon the amount billed to retailers plus a percentage of the amount of credits on books returned to the Company. In addition, Random House makes advance payments against anticipated distribution revenues. The contract is terminable at will.

The Company is in the process of preparing a line of paperback books, three of which will be ablished by Fall 1969. The books will deal with various subjects and will be sold to the consumer market at retail prices ranging from \$1.95 to \$2.95. Pursuant to the above described contract with Random House the Vintage Books division of Random House will distribute, under the name "Chelsea House/Vintage", all of the Company's paperback consumer titles. Random House will receive, as a distribution commission, a percentage of the amount billed to the retailer, In addition, the Company may sell certain of such titles through direct mail and advertising solicitation.

#### Educational Films

Film Cartridges: The History Machine

As at July 31, 1969, the Company had produced approximately twenty-five Super 8 mm, sound fire cartridges dealing with significant historical events of the 20th century, and directly related to the

study of American history for that period. The films are from five to seven minutes in length and are designed to be used with a rear-screen projector, which is a small machine resembling a television set

in appearance, and which is readily adaptable to classroom use. The Company is currently offering for delivery in Fall 1969, forty such cartridges and a Fairchild Mark IV Projector for a total price of \$2,280. The Company is marketing this product under the name "The History Machine". The films can be produced in other types of cartridges for showing on rear and or front screen projectors of other makes and on video tape. The Company is currently conducting negotiations with several firms with respect to the distribu-

tion of its film cartridge package to the educational and institutional market.

The Company has begun work on a similar series of sound film cartridges covering European history and expects to have produced fifty cartridges on that subject by Spring 1970. The Company is also planning to produce additional cartridges in the American history series and on poetry and other subjects.

16 Millimeter Films: University-at-Large Programs, Inc.

Through its 96%-owned subsidiary, University-at-Large Programs, Inc. ("University"), the Company produces 16 mm. sound color films for lease and sale to the educational market. The films are generally 30 minutes in length and have a synchronous sound track. Each film features a recognized authority in a field such as drama, literature, the arts, and social sciences or history, who presents a major thesis, argument, or analysis of his field of expertise. University enters into contracts under which the Company pays each authority a retainer and a royalty. General direction of the program is exercised by University's president, Arthur M. Schlesinger, jr. The production of the films is carried out by independent film makers under contract to University, and under University's supervision. University owns all rights to the films, except that University has pledged two such films, and revenues derived therefrom pursuant to its contract with Sterling Movies, Inc. described below, to a bank to secure repayment of a note in the amount of \$60,000. See "Description of Securities."

As at June 30, 1969, the Company had produced nine such films, entitled John Kenneth Galbraith: The Idea of the City; Marshall McLuhan: Picnic in Space; Arthur Schlesinger: Roots of the Cold War; Haroid Clurman: Ideas on the Theatre; Jerome Bruner: What Makes Man Human; Jerome Bruner: A Time for Learning; Hello Darwin; Buckminster Fuller: Man and the Universe; and Josef Albers: Homage to the Square. The films are sold at a retail price of approximately \$360, and are rented at a rate of \$40 per showing.

Initially the Company rented and sold the films through direct-mail solicitation. On December 9, 1968 the Company entered into a contract with Sterling Movies, Inc. ("Sterling") under which Sterling was granted the exclusive right to distribute two of the above films to educational institutions in the United States, with Sterling to receive a commission based on the retail sales or rental price. Under the contract, Sterling pays all the costs incurred in the distribution of the films and guarantees the purchase of the first 200 prints of each such film. The Company is presently negotiating with Sterling with respect to the distribution rights to the other seven films which the Company has produced. As at June 30, 1969, the Company had conducted no sales efforts with respect to the seven films not covered by the Sterling contract, and its sales and rentals with respect to such films were negligible.

The minority shareholder of University has a right to 2% of the net profits after taxes of University.

On May 17, 1968, the Company purchased a stock film library for a price of \$58,800, \$17,400 of which has been paid. The library contains approximately 7 million feet of film dealing with news events

and other historical subjects. The Company has commenced an action to rescind the contract of purchase on the ground of breach of warranty. As a result, the Company has not paid an installment of the purchase price in the amount of \$13,800 which was due May 1, 1969. The Company's action for, rescission was dismissed by the trial court, and the Company has find a notice of appeal. In the event that the Company is not ultimately successful in its attempt to rescind the contract of purchase, it intends to use the films as a source for its 8 mm. film cartridge and 16 mm. film programs. The film library is pledged to secure payment of the aforementioned purchase price. See also "Pending Litigation" herein.

#### Contributions to Gross Revenues

During the two fiscal years ended October 31, 1968 and the six months period ended April 30, 1969, the gross revenues of the Company from its various spheres of operation were as follows:

	Year Ended October 31		Six Months Ended	
	1967	1968	April 30, 1969	
Multi-volume reference works	\$229,700	\$227,200	\$238,000	
Consumer publication (The 1897 Sears Roebuck Catalogue)	-0	296,000	587,000	
16 mm. films	-0-	11,900	180,400	
Super 8 mm. film cartridges	-0-	-0-	-0-	

The above figures include both revenues from completed sales and revenues accrued on a percentage of completion basis.

### Property an Employees

The Company occupies approximately 6,000 square feet of office space on two floors at 70 West 40th Street, New York City, under two separate leases, both extending to January 31, 1976. The monthly rental is \$3,420 and will increase to \$3,600 in 1970, and to \$3,800 in 1972.

As at June 30, 1969, the Company employed thirty full-time employees, of whom eight are executive personnel, nine editorial personnel, five film personnel and eight clerical personnel. In addition, approximately 150 free-lance contributors and editorial personnel were under contract to the Company as at June 30, 1969, for work on specific projects of the Company. There are no collective bargaining contracts in force for any of the Company's personnel.

#### Competition

All areas of the Company's business are highly competitive. At least ten major publishers, each with financial resources considerably larger than those of the Company, publish multi-volume reference works that are encyclopedic in scope. In addition, numerous other companies, many of which have financial resources considerably larger than those of the Company, publish encyclopedias of ten volumes or over. There are more than one hundred publishers of hard-cover books for the consumer market and at least fifty publishers of paperback titles, many of which have financial resources considerably larger than those of the Company. Increasing numbers of producers are offering sound Super 8 mm. cartridges to educational

institutions and libraries, although, at the present time, there is no competing series of substantially similar material. In the field of 16 mm, educational films the Company competes with numerous firms which offer films of this kind to the educational market. In addition, at least five major publishers have been producing, on a long-term basis, documentary and/or educational films for the educational and institutional market. Many of such firms and publishers have financial resources considerably larger than those of the Company.

#### MANAGEMENT AND CONTROL

The directors and executive officers of the Company are:

Name	Position and Office		
Harold Steinberg	President and Director		
Robert Hector	Chairman of the Board, Treasurer and Director		
Jack Oppenheim			
Andrew E. Norman			
Stephen Wise			
Jeffrey Steinberg	Vice President		
Stuart A. Jackson			
Arthur M. Schlesinger, jr	Director		
L. Israel			

Mr. Harold Steinberg has been president of the Company since its incorporation in November 1966, and from January 1966 until that date was a partner in the Company's predecessor. For more than five years prior thereto he was public relations director of the American Jewish Committee and Commentery magazine. He also has held positions as journalist, film scriptwriter, speech writer and producer. Mr. Steinberg attended City College of New York, Brooklyn College and the New York University School of Law.

Mr. Robert Hector has been Chairman of the Company since its incorporation in November 1966, and from January 1966 until that date was a partner in the Company's predecessor. From 1964 to 1966 Mr. Hector worked in the theater as a business manager and a press agent. He has also contributed articles to magazines and worked on editorial projects with Crown Publishing Company and Grosset & Dunlap, publishers.

Mr. Jack Oppenheim joined the Company's predecessor as a partner in September 1966, and has been a Vice President of the Company since November 1966. Mr. Oppenheim was a practicing attorney from 1958 through September 1966, and is a graduate of the Harvard Law School.

Mr. Andrew E. Norman has been a Vice President of the Company since December 21, 1968. Prior thereto he was associated with the United States Office of Economic Opportunity, Community Action Program, 1966-1968; and was Associate Editor of Current magazine, 1960-1965. Mr. Norman is also a Director of Abacus Fund, Inc. Mr. Norman is a graduate of Harvard College and the Harvard Law School.

Mr. Stephen Wise has been employed by the Company since October 1968, and has been, Vice President of the Company since June 13, 1969. For more than five years prior thereto, he was a Vice President of Commodity Chartering Corporation, an owner, charterer and broker of seagoing oil tankers and dry cargo ships, and also Director of Chartering for all subsidiary companies of Seatrain Lines, Inc. He is a member of the Board of Directors of Volume Merchandise.

Mr. Jeffrey Steinberg has been employed by the Company since December 1967 and has been a Vice President of the Company since June 13, 1969. Prior to that, he was managing editor of Hullabaloo magazine, editorial director of New York Scenes and a contributor and free lance writer for a number of magazines. He attended the University of Pittsburgh and New York University.

Mr. Stuart A. Jackson has been Secretary of the Company since June 13, 1969. He has since 1957 been associated with or a partner of the New York law firm of Royall, Koegel & Wells, general counsel to the Company.

Mr. Arthur M. Schlesinger, jr. has held the Albert Schweitzer chair of Humanities at City University since September 1967. Prior to that he was Professor of History at Harvard University, and was advisor to Presidents John F. Kennedy and Lyndon B. Johnson, 1961-1964. He has twice won the Pulitzer Prize and is the author of numerous books on contemporary affairs and American history, including The Age of Jackson, The Age of Roosevelt and A Thousand Days. Mr. Schlesinger has also been president of the Company's subsidiary, University-at-Large Programs, Inc., since June 1967.

Dr. Fred L. Israel has been a member of the Department of History at City College of New York since 1956, where he is now an Associate Professor. He holds a doctorate degree from Columbia University. He is the author of Key Pittman, a biography, and has edited numerous historical works.

#### Remuncration

No officer of director of the Company has received more than \$30,000 per annum in direct remuneration from the Company since its founding.

The aggregate remuneration paid during the fiscal year ended October 31, 1968 by the Company to all officers and directors as a group (five persons) was \$75,551. No officer or director is to receive remuneration for the fiscal year ending October 31, 1969 at an annual rate in excess of \$30,000; however, see "Certain Transactions."

The Company has entered into contracts to employ Messrs. Hector, Harold Steinberg and Oppenheim as Chairman and Treasurer, President and Vice President, respectively, commencing July 1, 1969 at a salary of \$18,000 per year until October 31, 1969, \$25,000 per year for the 12 months ending October 31, 1970, and \$30,000 per year for the 12 months ending October 31, 1971. The Company has also entered into a contract to employ Mr. Norman as Vice President commencing July 1, 1969 at a salary of \$13,000 per year until October 31, 1969, \$20,000 per year for the 12 months ending October 31, 1970, and \$25,000 per year for the 12 months ending October 31, 1971. In addition, the Company's subsidiary, University-at-Large Programs, Inc., has an employment contract with Mr. Schlesinger as described herein and certain officers and directors of the Company were issued shares of the Company's Common Stock in consideration for services rendered to the Company (see "Certain Transactions").

#### Qualified Stock Option Plan

The Company has in effect a Qualified Stock Option Plan (hereinafter called the "Plan"), which became effective June 13, 1969, upon approval by the shareholders.

The Plan permits the granting of options, which are intended to be "qualified" stock options under the provisions of the Internal Revenue Code, to selected employees. An individual employee may be granted an option or options to purchase shares of Common Stock at an option price representing 100% of the market value of the Common Stock on the date upon which the option is granted. The options expire five years from the date of issuance, and may not, except in the case of termination of employment by death, be exercised after termination of employment of the option holder. Options may not be granted to employees owning more than 5% of the outstanding Common Stock and no option may be made exercisable earlier than one year from the date of grant thereof.

The Plan will terminate no later than June 12, 1979 and no more than \$5,000 shares (subject to adjustment in certain cases, to prevent dilution) may be issued under it.

As at June 30, 1969, the only option outstanding under the Plan was an option to purchase 3,500 shares granted to Arthur M. Schlesinger, jr., a Director of the Company, which option is exercisable at \$10 per share, and expires June 12, 1974.

#### PRINCIPAL SHAREHOLDERS

The principal sharcholders of the Company, the amount of Common Stock owned of record and beneficially by each of them as of June 30, 1969, and the respective percentages of the outstanding Common Stock owned by each of them on June 30, 1969 and as adjusted to give effect to the 200,000 shares offered hereby, is as follows:

Name	Shares Owned	% of Class on June 30, 1969	% of Class as Adjusted
Robert Hector	153,873 shs.	21.98%	17.10%
Harold Steinberg	141,865(1)	20.27	15.76
Jack Oppenheim	147,183	21.03	16.35
Andrew E. Norman	180,633(2)	25.80	20.07
All officers and directors as a group (9 persons)	697,969	99.71	77.55

Exclusive of 15,008 shares of the Company owned by his son, Jeffrey Steinberg, an officer of the Company.
 20,071 of such shares are subject to an option to purchase granted to Mr. Stephen Wise, an officer and director of the Company.

By virtue of their stockholdings, Messrs. Hector, Steinberg, Oppenheim and Norman may be deemed parents of the Company within the meaning of the Securities Act of 1933.

# CERTAIN TRANSACTIONS

The Company was organized to succeed to the interests of Chelsea House-Hector Publishers, a partnership consisting of Robert Hector, Harold Steinberg and Jack Oppenheim, who are presently principal shareowners, officers and directors of the Company. Messrs. Hector, Steinberg and Oppenheim each received 187,925 shares of Common Stock of the Company in exchange for net assets of the partnership having a book value of \$11,269, representing capital contributed by the partners, together with partnership retained carnings of \$2,671. Such shares were acquired, therefore, at a price of \$.02 per share.

On December 27, 1967, Andrew E. Norman was elected a director and officer of the Company. On the same date, Mr. Norman was issued 105,238 shares of Common Stock of the Company for an aggregate of \$110,040 (\$1.05 per share), and a \$110,000 principal amount 4½% Sinking Fund Decenture of the Company evidencing a loan of that amount made by Mr. Norman to the Company. At the same time, Messrs. Harold Steinberg, Hector and Oppenheim each sold to Mr. Norman 20,672 shares of Common Stock of the Company for an aggregate purchase price of \$60,000 (\$.97 per share).

On June 30, 1968, the Company issued to Dr. Fred L. Israel, who was then neither an officer nor director of the Company, 7,517 shares of Common Stock in exchange for the cancellation of a right held by Dr. Israel to receive 1% of the net income of the Company.

On June 30, 1969, Mr. Jeffrey Steinberg, who is an officer of the Company, Mr. Leon Friedman, who is neither an officer nor a director thereof, and Dr. Fred L. Israel, who is a director of the Company, were issued, respectively; 3,000, 2,000 and 5,939 shares of Common Stock by the Company in consideration for services rendered to the Company. In the event that any such person voluntarily leaves the employ of the Company or is discharged for cause prior to June 30, 1970, two-thirds of the shares granted to him revert to the Company, and upon the occurrence of any such event between July 1, 1970-June 30, 1971, one third of such shares will so revert.

Arthur M. Schlesinger, jr. has since June 1967 served as president of the Company's subsidiary, University-at-Large Programs, Inc. pursuant to a contract terminating on June 1971. Under the contract, Mr. Schlesinger renders part-time service to such company and is paid a salary of \$20,000 per year. In addition, Mr. Schlesinger is to receive a 10% royalty, but not less than \$1,000, for each 16 mm. film that he makes for University-at-Large Programs, Inc. The Company also from time to time enters into contracts with Mr. Schlesinger, under which Mr. Schlesinger is retained to edit multi-volume reference works for the Company. At present, Mr. Schlesinger is under contract to edit a total of three books for the Company, for which he has received or will receive an aggregate of \$19,000. In addition, Mr. Schlesinger has been granted an option under the Company's Qualified Stock Option Plan, to purchase 3,500 shares of Common Stock of the Company. See "Management and Control—Qualified Stock Option Plan" herein.

# DESCRIPTION OF SECURITIES

41/2% Sinking Fund Debenture due January 31, 17:3

On December 21, 1967 the Company lessons \$11 110 thes Andrew E. Norman, an officer and director and a principal shareholder of the Company and Mr. Norman its 41/2% Sinking Fund Debenture due January 31, 1983 (the "debenture : " a pro-esse agreement requires the Company to make annual sinking fund installments commenced in the lesser of \$10,000 or 5% of consolidated pre-tax profits of the Company in each are a fact for the preceding fiscal year. Under the agreement, if additional debentures are issue, as to make a constallments are required to be made. So long as any debenture is outstanding the de de de agreement the Company may not declare any dividend on its capital stock (colors the prior to November 1, 1971, and may not thereafter declare dividends (oil er tie- vie declare) unless a sinking fund installment or ture is subordinated in right of payment to all the live to banks and other lending institutions.

# Note of Subsidiary

On June 16, 1969, the Company's substitute it accepts at large Programs, Inc. ("University") borrowed \$60,000 from Chemical Bank and a very transfer to the payable in quarterly installments, to Chemical Bank bearing interest at a rate as the same may vary from time-to-time. The bank has agreed that made not be as a fact of such note for 18 months unless a default in the quarterly payments up a transfer to the secure to the pledged, to secure payment of such note, two 16 mm. films coans a firm at a server with all amounts to be received from the distribution agreements made with the rest in the rest Films."

## Common Stock

The Company has one class of stock, its Common Stock is entitled to one vote for each share on all matters to the same to a state of creek, including the election of directors. All shares are entitled to party to the same same of directors, when and if declared, and upon distribution of the assets of the to a pure the same the sers of Common Stock have no preemptive rights. The presently outstand for the state that are issued the shares to be outstanding upon completion of the officer 2 .- of the factor and 
# Non-Cumulative Voting

The Company's Certificate of In orp when I we make the comulative voting and accordingly the owners of more than 50% of the contract of the directors, in which event the remaining shareholders will not be and to see any more too.

...... iron a Comea! Hank, New York, N. Y. The Transfer Agent and Registrat : \*

# Reports to Sharcholders

The Company intends to furn the second company intends to furn the company intends to furn the second company intends to second company in the second company intends to second company intends to second company in the se . . . . . . . . . . . . financial statements. From examined by certified public acc . ...... se se se 'arn.ch its shareholders with adtime to time the Company also intra to ditional information about the Congress of the

### PENDING LITIGATION

In August 1968 the Company commenced an action in the Supreme Court of the State of New York, County of New York, seeking to rescind a contract with Filmvideo Releasing Corp. for the purchase by the Company of a film library (see "Business—Educational Films"), on the grounds that defendant breached a warranty contained in the contract of purchase. The Company's action for rescission was dismissed by the Supreme Court, and the Company has filed a notice of appeal. The defendant has counterclaimed for \$41,400, allegeing non-payment of a note installment in the amount of \$13,800 which was due May 1, 1969 and claiming that the entire \$41,400 payable for the film library is accelerated in time of payment because of the alleged default. The Company has withheld payment of the \$13,800 installment because of its contention that the purchase contract should be rescinded. The Company is unable to predict the outcome of its claim or the counterclaim of defendant, but does not believe that such outcome will have a materially adverse effect on its operations.

## LEGAL OPINIONS

Legal matters in connection with the securities offered by the Company are being passed upon for the Company by Messrs. Royall, Koegel & Wells, 200 Park Atenue, New York, New York. Stuart A. Jackson, Esq., a member of the firm of Royall, Koegel & Wells, is an officer and director of the Company.

#### EXPERTS

The financial statements included in this Prospectus and the schedules included in the Registration Statement, except as they relate to the six-month periods ended April 30, 1968 and April 30, 1969, have been examined by Price Waterhouse & Co., independent accountants, whose opinions thereon appear herein and elsewhere in the Registration Statement, and have been included by the Company in reliance on the opinion of such firm and on their authority as experts in auditing and accounting.

## REGISTRATION STATEMENT

The Company has filed a Registration Statement (No. 2- ) relating to this offering. This prospectus omits certain information contained in the Registration Statement as amended, on file with the Securities and Exchange Commission at its principal office in Washington, D. C.

# OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors Chelsea House Educational Communications, Inc.

We have examined the accompanying convoluted balance sheet of Chelsea House Educational Communications, Inc. and subsidiary company as of Chelsea M. 1988 and related consolidated statements of retained earnings and capital in excess of par value together with the consolidated statement of operations for the year ended October 31, 1968 and the productions consolidated statement of operations for the ten months ended October 31, 1966 and year ended that the 31, 1967 appearing elsewhere in this Prospectus. Our examination was made in accordance with processing ted auditing standards and accordingly included such tests of the accounting records and make over auditing procedures as we considered necessary in the circumstances.

Physical inventories have not been taken by the company. However, we satisfied ourselves as to the reasonableness of the amounts thereof by continuous with the manufacturers and distributors used by the company and by performing such other proof the reasonableness of the appropriate.

As described in Note 7 to the consolidated transmit statements, the company is contingently liable for the payment of certain remuneration in the account of approximately \$70,500 at October 31, 1968.

In our opinion, subject to the resolution of the contropency referred to in the preceding paragraph, the above mentioned financial statements present the consolidated financial position of Cheisea House Educational Communications, Inc. and the last conjuny at October 31, 1968 and the results of their operations for the year then ended and the fact that we forth in Note (B), the pro forma results of their operations for the ten months ended to the fact that and year ended October 31, 1967, all in accordance with generally accepted according to the last that are presented to a consistent basis.

PRICE WATERHOUSE & Co.

New York, N. Y. July 25, 1969

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET		
ASSETS	October 31, 1968	April 30,
Current assets:		(Unaudited)
Cash Accounts receivable (Note 5) Unbilled costs and accrued earnings on contracts in process (Note 2)	\$ 51,859 81,729 23,770	\$ 56,275 178,701 126,270
Inventories:  Books (Note 8)  Film costs, less accumulated amortization of \$6,049 (1968) and \$31,714	104,056	165,523
(1969) (Note 9)	212,545 22,154	273,501 -0-
Total current assets	496,113	800,270
Bookplates, less accumulated amortization of \$1,816 (1968) and \$5,048 (1969)  Furniture, equipment and leasehold improvements, at cost less accumulated	7,499	4,267
depreciation and amortization of \$536 (1968) and \$1,203 (1969)  Film library (Note 9)  Deposits and miscellaneous	<b>7</b> ,623 <b>5</b> 8,800 <b>2</b> ,562	14,114 58,800 7,065
Organization costs, less accumulated amortization of \$1,300 (1968) and \$1,725 (1969)	2,950	2,525
Total assets	\$575,547	\$887,041
LIABILITIES AND STOCKHOLDERS' EQUITY  Current liabilities:		
Notes payable (Note 5) Accounts payable Accrued expenses Accrued taxes Income taxes payable Advances from distributor Accrued compensation (Note 4)	\$ 88,800 202.259 38,902 3,216	\$102,600 168.957 77,560 4 192 12,000 65,000 17,189
Total current liabilities	346,928	447,498
Other liabilities and deferrals  Deferred income taxes (Note 3)  Notes payable (Note 5)  4½% Sinking Fund Debenture (Note 6)	27,600 110,000	97,000 13.800 110,000
	137,600	220,800
Stockholders' Equity  Common stock, \$.01 par value  Authorized—2,000,000 shares		
Issued and outstanding 676,530 shares (Note 4)  Capital in excess of par value  Retained earnings (deficit) (Note 6)	6,765 120,501 (36,247)	6,765 120,501 91,477
	91,019	218,743
Commitments and contingent liability (Nove 7)  Total liabilities and stockhowers' equity	\$575,547	\$\$\$7,041

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Ten months ended	Year ended	Six months ended April 30.		
	October 31, 1966	1967	1968	1969	
		1		(Unaudited)	
Retained earnings (deficit), beginning of period	_	_	· · · · · · · · · · · · · · · · · · ·	\$(36,247)	
Net income (In 1966 and 1967 amounts are before pro forma adjustments—See Note B to Consolidated Statement of					
Operations)	\$ 18,868	\$ 30,443	\$(36,247)	127,724	
Distribution to partners prior to incorpora-	(16,197)	· - · ·	: <b>-</b>	_	
Net income of predecessor partnership capitalized on incorporation	(2,671)		:::: <u>'</u>		
mi tilade		•			
Dividend: Paid in cash	-	(9,000)		· - ·	
Cancellation of receivable resulting from cash advance to shareholders	_	(27,000)	· · · · · · · · · · · · · · · · · · ·		
e stand oaid over retained earn-		••••	• ·		
ings, charged to capital in excess of par		5,557			
Retained earnings (deficit), end of period	\$ —	\$ —	\$(36,247)	\$ 91,477	

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Ten months ended October 31,	Year ended October 31,	Six months ended April 30,
	1966	1967 1968	1969
a to the control of one value beginning of			(Unaudited)
Capital in excess of par value, beginning of period	-	\$ 5,632 \$ 6,552	\$120,501
Excess of net assets of predecessor partner- ship (including earnings of \$2,671) over par value of 563,775 shares issued on			
incorporation	\$ 5,632		,
Excess of proceeds over par value of com- mon stock:	-		
Parent company, 105,238 shares	-	108,988	_
Subsidiary company		. 3,996 —	
Excess of valuation of 7,517 shares issued June 30, 1968 over par value	-	2,481 - 4,961	-
Excess of dividend paid over retained earnings available		(5,557) -	
Capital in excess of par value, end of period	\$ 5,632	\$ 6,552 \$120,501	\$120,501

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1968 and April 30, 1969 (Unaudited)

#### NOTE 1-PRINCIPLES OF CONSOLIDATION:

The accompanying financial statements include the accounts of the Company and its 96% owned subsidiary, University-at-Large Programs, Inc.

The 4% minority stockholder in University-at-Large Programs, Inc. has the right under an agreement to receive annually 2% of the subsidiary's net income after taxes. Because the subsidiary has operated at a loss, no amounts have been provided for such payments. The Company may under certain conditions be obligated to pay the minority stockholder up to \$12,000 at such time or times as advances from the parent are repaid by the subsidiary.

The excess of liabilities over assets of the Company's subsidiary as shown by its financial statements exceeded the Company's investment therein by \$170,110 at October 31, 1968 (\$171,775 at April 30, 1969) which in consolidation has been charged to retained earnings.

#### NOTE 2-SALES:

A majority of the com any's gross sales for the year ended October 31, 1968 and the six months ended April 30, 1969 were derived from one published book.

Approximately 28% (year ended October 31, 1968) and 22% (six months ended April 30, 1969) of the company's sales were under contracts calling for the development by the company of manuscripts for delivery to a publisher/distributor. Payments are received at various times during the development of the manuscripts. A portion of the total contract price is recorded as income based on management's estimate of the percentage of completion achieved with respect to each such contract.

Gross sales from films amounted, respectively, to approximately 2% (1968) and 18% (1969) of total gross sales.

#### NOTE 3-INCOME TAXES:

Income on certain contracts is recorded for financial accounting purposes in excess of amounts reported for income tax purposes. Also, the value of restricted stock (Note 4) is deductible for income tax purposes when restrictions lapse whereas expenses for accounting purposes have been reported in earlier periods. Deferred income tax provisions for the six months ended April 30, 1959 in the amount of \$97,000 represent the effect of such differences.

Investment tax credits available to the company have not been material in amount.

The company has net operating losses available of \$36,000 for book purposes and \$138,000 for tax purposes at October 31, 1968 both expiring in 1973. Based upon reported net income for the six months ended April 30, 1969, all net operating loss carryforwards would have been utilized.

#### NOTE 4-RECAPITALIZATION :

On June 20, 1969, by amendment to its Certificate of Incorporation, the company increased its number of authorized shares of common stock to 2,000,000. 360 shares previously outstanding were exchanged for 676,530 new shares of \$.01 par value common stock. The recapitalization has been given effect to in the accompanying financial statements.

Subsequent to this recapitalization 10,939 shares were issued on June 30, 1969 for services performed and/or to be performed by three persons. Certain of the shares issue are subject to restrictions and reversion to the company should employment be terminated under certain conditions fore specified dates. On the basis of estimated fair values of stock issued, compensation expenses in the aggregate amount of \$17,189 has been allocated to the period November 1, 1966 through April 30, 1969. Liabilities therefor of \$13,751 (1968) and \$17,189 (1969) were considered liquidated upon issuance of the shares. Additional expenses of approximately \$37,500 will be charged against income from May 1, 1969, through June 30, 1971, the date on which final restrictions lapse. In addition approximately

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

\$7,500 was allocated to the years 1967 and 1968 for stock issued to an employee at June 30, 1968. The expense related to the foregoing transactions is deductible by the company for income tax purposes in the years in which restrictions lapse.

For information regarding the company's qualified stock option plan ado, ted and options granted subsequent to April 30, 1969, see "Qualified Stock Option Plan" elsewhere in this Prospectus.

#### NOTE 5-NOTES PAYABLE:

Notes payable consisted of the following:

	October 31, 1968	April 30. 1969
Bank:		
71/2% due November 13, 1968	\$ 20,000	-
71/2% due November 22, 1968	30.000	-
7% due January 22, 1969	25,000	-
81/2% due June 17, 1969		\$ 75,000
,	\$ 75,000	\$ 75,000
For purchase of film library: (Note 9)		
6% due May 1, 1969	13,800	13,800
6% due February 1, 1970	13,800	13,800
6% due February 1, 1971	13,800	13,800
	41,400	41,400
	116,400	116,400
Less: non-current portion	27,600	13,800
Due currently	\$ 83,800	\$102,600

Subsequent to April 30, 1969, the subsidiary company borrowed an additional \$60,000 from a bank. Receivables from the sale of two films (Note 2) which at April 30, 1969 amounted to \$96,000 and the related films were assigned as security for this loan. This debt bears interest at the rate of 1% above the bank's prime commercial rate and is payable in quarterly installments of amounts equal to the amount received by the distributor of the two films. The bank has agreed that no demand shall be made for payment of such note for eighteen months unless a default in the quarterly payments upon such notes has occurred.

#### NOTE 6-41/2% SINKING FUND DEBENTURE:

The debenture agreement with respect to the \$110,000 4½% debenture payable to a major stockholder requires the company to make sinking fund installments in each year commencing with 1972 equal to the lower of \$10,000 or 5% of consolidated pre-tax profits of the Company in excess of \$50,000 for the preceding fiscal year. Under the agreement, if additional debentures are issued, additional sinking fund installments are required to be made. So long as any debenture is outstanding under the debenture agreement the Company may not declare any dividend on its capital stock (other than stock dividends) prior to January 31, 1972, and may not thereafter declare dividends (other than stock dividends) unless a sinking fund installment of not less than \$10,000 had been made during the preceding fiscal year. The debenture is subordinate to certain other indebtedness of the company. The company may prepay this indebtedness at its option.

#### NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITY:

The company leases its office space for an approximate annual rental increasing from \$41,000 to \$46,000 through January 31, 1976.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In 1967, the subsidiary company entered into agreements with ten individuals to provide consultative services to the company at a specified annual remuneration. The company contends that it is responsible for these-remunerations only as the contemplated services of these individuals are called upon and utilized by the company. Since services have not been rendered under several of these agreements no provisions for such payments are included in the accompanying financial statements. Should it become necessary for the company to pay such amounts from the dates of the agreements, additional expenses of \$27,000 and \$43,500 for the years ended October 31, 1967 and 1968 (\$23,000 and \$20,000 for the six months ended April 30, 1968 and 1969) would be incurred. Had such amounts been recorded as expenses, net income (loss) after applicable income taxes and tax reductions, would be as follows:

	Year ended October 31,		April 30,	
en riperentination of t	1967	1968	1968 (Unau	1969 dited)
Net income (loss)	\$9,753	\$(79,747)	\$(121,268)	\$144,754
Per share	\$.02	\$(.12)	\$(.18)	\$.21

No claims with respect to such remuneration are currently pending.

For information concerning certain other employment contracts, see "Remuneration" on page 14 of this Prospectus.

#### MOTE 8-INVENTORIES OF BOOKS:

Inventories of books used in determining direct costs and operating expenses are as follows:

. October 31, 1966	\$ -7,100
October 31, 1967	\$ 30,249
October 31, 1968	\$104,056
April 30, 1969 (Unaudited)	\$165,523

Inventories are valued at the lower of cost (first-in, first-out basis) or market. Major classifications are as follows:

						October 31, 1968	April 30, 1969
					:		 (Unaudited)
Bound	books			2.		\$ 18,063	\$ 52,832
Work	in process			• • •		52,475	112,691
Paper		•••••			,::,	33,518	 
	•					\$104,056	\$165,523
			٠.				

#### NUT 9-FILM INVENTORY AND FILM LIBRARY:

Film costs included in inventory comprised the following:

sis metaded in internot, comprises	Octob	April 30	
	1967	1968	April 30, 1969
			(Unaudited)
Film costs	\$ 6,750	\$218,594	\$305,215
Amortization	-	6,049	31,714
	\$ 6,750	\$212,543	\$273,501

Leandant's Exhibit D

Indemnification Agreement signed by William Poten and Jack Oppenheim

D. OF N. Y.

7-13

#### INDEMNIFICATION AGREEMENT

The undersigned, William Poten, hereby agrees to indemnify and hold harmless Jack Oppenheim against any claims, including legal fees and expenses for brokerage commissions or finder's fees in connection with the transactions contemplated by the Agreement dated April 7, 1970, as amended on April 10, 1970, by and among Harold Steinberg, Harold Harris, Andrew E. Norman, Leon W. Friedman, Stuart A. Jackson, Fred L. Israel, Stephen Wise, Richard Maybruck, Anita London, William P. Hansen, Mary Lunenfeld and Jack Oppenheim, insofar as such claims shall be alleged to be based upon arrangements or agreements made by said William Poten on behalf of any of the parties to said Agreement, as amended.

William Poten

Accepted:

Jack Oppenheim

## Defendant's Exhibit E

Letter Agreement on the letterhead of E. L. Aaron & Co. Incorporated, 15 William Street, New York, New York, addressed to Mr. Harold Steinberg of Chelsea House dated May , 1970

DEFENDANT'S

E. L. AARON & CO., INCORPORATED
15 William Street
New York, New York

May , 1970

Mr. Harold Steinberg
Chelsea House Educational
Communications, Inc.
70 West 40th Street
New York, New York

Dear Mr. Steinberg:

Reference is made to our prior discussions concerning a public sale of securities of Chelsea House Educational Communications, Inc. (the "Company") which offering will result in aggregate gross proceeds of \$700,000. This will confirm our discussions with you relating to our acting as underwriter on a "best efforts, fifty per cent or none" basis, of an aggregate of 100,000 shares of Common Stock on the following terms and conditions:

# 1. Conditions Precedent to Public Offering

- (a) The Company will be validly incorporated under the laws of the State of New York, and shall be able to enter into an underwriting agreement.
- (b) The capitalization of the Company will be 2,000,000 shares of Common Stock, all of one class, having a par value of \$.01 per share.
- (c) Prior to the filing of the first amendment to the registration statement, the Company will effect a recapitalization and reorganization, as a result of which the 699,969 shares of Common Stock presently issued and outstanding will be changed into 1,000,000 shares of such Common Stock. After the public offering there will be a maximum of 1,100,000

shares issued and outstanding. All of said shares, when issued, shall be fully paid and non-assessable and without preemptive rights.

(d) Your attorneys and Price Waterhouse & Co., will prepare expeditiously and file an amendment to the registration statement of the Company filed on July 29, 1969 (File No. 2-34135), with related prospectus and necessary exhibits, pursuant to the Securities Act of 1933, as amended, covering the public offering of 100,000 shares of the Company's authorized but unissued stock. The price per share set forth in said registration statement shall be \$7.00 per share.

# 2. Terms of Offer

- (a) The underwriter shall act as your exclusive agents to effect a public offering on a "best efforts" basis of 100,000 shares of Common Stock of the Company at an offering price of \$7.00 per share, and the public offering shall be made during the period of 30 days from the effective date of the registration statement referred to below except as may be extended for an additional 30 days by mutual agreement by us and the Company. No shares will be sold unless the undersigned is successful in selling all 50,000 shares.
  - (b) The undersigned shall receive a commission for each share sold, of 10% of the offering price (\$.70 per share) and shall receive, in addition, an expense allowance of \$7,000 for which expenses the undersigned shall not be required to account. Furthermore, the Company shall pay, from the proceeds of the offering, \$14,000 to Mr. James Rafferty, as a finder's fee. The balance of the proceeds referred to in paragraph 2(a) above, shall be delivered to the Company.

# 3. Registration Statement

The Company shall promptly cause to be prepared and filed all documents required to be filed by the Securities and Exchange Commission of for the purpose of registering the aforesaid public offering, including amendments to the regis ration statement and related exhibits. No filing of an amendment to the registration statement shall be made to which the undersigned or its counsel reasonably objects. The Company shall bear all fees and expenses relating to said registration statement and exhibits, including fees and disbursements of counsel to the Company, all required accounting fees and charges, registration fees, Blue Sky fees and expenses and printing expenses, which costs and expenses shall exclude expenses of the underwriter except as to the expense allowance as enumerated in paragraph 2(b) above.

# 4. Underwriting Agreement

An underwriting agreement shall be prepared which will cover the terms of the offer of the stock, which agreement shall be in such form and contain provisions satisfactory to all parties and respective counsel, and shall contain representations and warranties with respect to the Company, the subsidiaries of the Company and the financial condition of the foregoing entities.

You realize, of course, that the foregoing constitutes a memorandum of our intention and does not purport to create any contractual or any other obligation to us and is merely a summary of certain of the principal terms to be included in the formal and printed underwriting agreement referred to above, which will be prepared by our counsel, and which shall contain mutually agreeable terms and conditions.

Very truly yours,

E. L. AARON & CO., INC.

By lind Lann

Agreed and accepted this day of May, 1970
Chelsea House Educational, Communications, Inc.

Birold Steinberg, President

Defendant's Exhibit F

Application for Allowance to attorneys for Debtor In the Matter of Chelsea House Educational Communications, Inc., in the Southern District of New York

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORRV 121972

In the Matter of

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. (formerly called LOCHSLEY HALL, INC.) d/b/a CHELSEA HOUSE PUBLISHERS,

ROY BAD IN PROCEEDINGS : FOR AN ARRANGEMENT

Debtor.

: No. 70 B 600

#### APPLICATION FOR AN ALLOWANCE TO ATTORNEYS FOR DEBTOR

TO: THE HONORABLE ROY BABITT, Referee in Bankruptcy:

The petition of ROYALL, KOEGEL & WELLS, by Stuart A. Jackson, respectfully shows and alleges:

- 1. I am a member of the firm of ROYALL, KOEGEL & WELLS, attorneys for Chelsea House Educational Communications, Inc., debtor herein. I am a member of the bar of this Court and of the State of New York, and have been practicing law for approximately 15 years. I am a senior partner in the firm of ROYALL, KOEGEL & WELLS and have personally been in charge and have supervised the services rendered by this firm to debtor.
- 2. The firm of ROYALL, KOEGEL & WELLS is a major and well known law firm in the United States, experienced in insolvency proceedings, and has represented debtors and debtors in possession, as well as creditors in such proceedings under Chapter X and Chapter XI of the Bankruptcy Act. These proceedings include, among others, the reorganization of Yale

DEFENDANT'S

Express Systems, Inc. and subsidiaries and the Chapter XI proceeding of United Network, Inc. Each of these proceedings, as this Court is doubtless aware, involved substantial amounts of assets and claims, and great complexities.

3. I have personally supervised all of the work done on behalf of debtor in this proceeding and have been assisted in this complex task by one senior associate who spent a major portion of his time devoted to debtor's affairs, and one junior associate. In addition, at various times as necessary services were rendered by two additional partners and at least four other associates of this office.

# PRELIMINARY STATEMENT RE AGREEMENT ON FEES

- 4. Although the fee in the amount to be allowed by this Court is technically coming from funds of the debtor, this Court shall be advised that these funds, to be used for all payments required under debtor's plan of arrangement, were raised by an offering of senior convertible debentures in the total amount of \$255,000 to the shareholders of debtor on a pro-rata basis. Andrew E. Norman, a principal shareholder of the debtor, agreed to purchase the entire \$255,000 debenture offering to the extent that other shareholders did not purchase their share, and in fact did purchase the entire issue. As described below, these funds are to be returned to Norman in full if there is no confirmation. This offering and Mr. Norman's agreement were disclosed in debtor's plan of arrangement.
  - 5. As part of Mr. Norman's agreement to purchase all of the debentures and because Mr. Norman was willing to

required in the plan, petitioner and Mr. Norman agreed that \$50,000 would be the maximum ROYALL, KOEGEL & WELLS would request and take for its services in this proceeding regardless of the amount of time and disbursements actually expended by petitioner which is very substantially in excess of this amount, and was at the time this agreement with Mr. Norman was made. Of course, the actual fee to be paid petitioner will be only that amount allowed by this Court, and there are no agreements with anyone setting the amount of petitioner's fee. Petitioner's willingness to forego any right to a higher fee made it possible for debtor to effectuate its plan of arrangement.

6. If the plan is not confirmed, the \$255,000 put up by Mr. Norman will all be returned to him without diminution, as authorized by order of this Court dated October 10, 1972, and in such an event none of such funds will go to this firm. In effect, funds of a third party, Mr. Norman, and not funds of the debtor, are being used to pay this firm's fee. Thus, although as shown in this application, petitioner has put in a total of 1147 hours which at it usually hourly rates would normally result in a fee application of \$70,227, and has in addition expended \$4,471.55 for actual disbursements on behalf of debtor, for a total fee application of \$74,678.55, per the above agreement with Mr. Norman, this firm has agreed that regardless of this higher amount, the maximum it will request is \$50,000. Petitioner has

## BACKGROUND OF PROCEEDINGS

- 7. Prior to the initiation of the arrangement proceeding, petitioner acted as counsel for debtor in attempting to effectuate a public offering for debtor's securities. As such, petitioner was well acquainted with the business and financial affairs of debtor and well-qualified to act as its counsel. Of course, petitioner does not seek in this application any fee for these early services, but rather seeks compensation only for its work in connection with the Chapter XI proceeding which began in June 1970.
- 8. Debtor was organized on November 3, 1966 under the name Locksley Hall, Inc. for the purpose of publishing reference and trade books and films, primarily in the educational market. The venture at first achieved notable successes with the publication of critically acclaimed reference works such as The Justices of the U. S. Supreme Court, 1789-1969 (4 volumes); Statutory History of the United States (4 volumes); and popular publications such as The 1897 Sears Roebuck Catalogue. In addition, debtor developed an educational concept called. the History Machine for usein schools which consists of approximately 26 short education films concerning historical and socially significant events.
- 9. Because of the initial successes, debtor entered into numerous complex agreements with authors, distributors, publishers, film developers, suppliers and others to develop and produce works, all of which required a great deal of work after the Chapter XI petition was filed.
- 10. Because of the unfortunate downturn in the market in early 1970, a public offering of debtor's shares was not possible. Moreover, cut-backs in government spending for educational purposes led to a similar turndown in the educational purposes.

tional market, the primary market for debtor's products. In spite of the turndown in the market, debtor was still committed to completing many multi-volume reference works and other projects which required continuing supervision, outlays of funds, and debtor had difficulty meeting its daily obligations and the time schedules and payments required by these projects.

- that debtor would not be able to continue operations without drastic rearrangements. Numerous efforts to provide additional capital through private sources which I personally sought out were unsuccessful; discussions were had by myself with numerous large creditors of debtor, again to work out some kind of salvation for debtor. However, it became clear that an insolvency proceeding would be necessary to preserve the assets and provide for orderly arrangements with creditors so that the business could be continued and the best salvage effected.
- 12. Beginning in mid-June 1970, forw rd until the petition was filed on July 1, 1970, I, and another associate in this office, had virtually daily meetings with the officers and directors of debtor to determine the best course to follow. Petitioner advised debtor fully of the various possibilities under the Bankruptcy Act that would be open to it. This culminated in the calling of a meeting of the board of directors of debtor on June 30, 1970. Petitioner took care of all the paperwork and supervised all details necessary to call the meeting. I attended the meeting and participated in a full discussion with the directors of the legal and financial aspects of a Chapter XI proceeding. The meeting resulted in



formal approval by the board to file a Chapter XI petition, and the acceptance of resignations from certain directors of debtor.

- 13. Long before this formal approval by the board, associates in this office worked daily, evenings and weekends in the offices of debtor investigating the records and gathering together the information that would be needed for the filing. It became readily apparent that there were hundreds of creditors, many substantial and complex outstanding executory contracts, and that suits had begun to be filed against the debtor. An associate in this office under my supervision used the information to put together all of the necessary facts and paperwork to file the petition. Petitioner prepared the numerous documents required for the petition, all of which were filed on July 1, 1970. These included the petition with a partial list of creditors and corporate resolutions attached, the application for an order of continuance, and the affidavit pursuant to Rule XI-2. On July 2, 1970, this Court signed the order of continuance approving debtor's petition and allowing debtor to continue operations as debtor-in-possession. A petition and order authorizing the retention of this firm as attorneys was also submitted and signed by the Court on July 7, 1970.
- 14. After the order was signed, petitioner also filed the necessary application to obtain authority to pay designated salaries to the officers of the debtor. At the time of the filing of the petition, there were six officers of the debtor. Subsequently, petitioner worked with debtor to reduce its personnel and overhead during the Chapter XI proceedings. Debtor cut back on both officers and non-officers personnel as a

result. For most of the time debtor was in the Chapter XI proceedings, it operated with two officers and nine employees.

on July 8, 1970 and successfully opposed an application made at that time by one creditor for debtor to post indemnity. On July 29, 1970 petitioner appeared in Court with officers of debtor at the first meeting of creditors at which time a creditors committee was elected and the firm of Leinwand, Maron, Hendler & Krause was chosen as attorneys for the creditors committee. For the most part, Isidor E. Leinwand of that firm handled the matter and it should be stated that throughout the proceedings he, and the other attorneys in that firm, were extremely helpful, cooperative and experienced in dealing with the many problems encountered.

16. Petitioner also filed applications and obtained necessary Court orders authorizing the opening of bank accounts for the debtor. This included not only the debtor's general account at Chemical Bank, but also, later in the proceedings, a special bank account at the Bank of Commerce (more fully described below) into which were deposited funds from a contract with Litton Industries to be withdrawn only with Court approval upon notice to the debtor's creditors committee. Over \$86,000 was placed in this account, and at various times during the proceedings funds were withdrawn on application. Petitioner prepared seven different applications and orders to obtain permission for these withdrawals, each of which set forth in detail the reason why the funds were needed and the purposes for which the moneys would be spent. In each case, negotiations took place with the creditors committee or the attorneys for the creditors committee to try to obtain their consent before the application was presented to the Court. Debtor was thus able to use the funds to continue operations and develop other projections.

17. Subsequently, on December 17, 1970, petitioner filed the application to obtain approval for debtor to retain J. K. Lasser & Co. as accountants for debtor to review their books, records and evaluate the assets in order to prepare a report for the creditors of debtor. Petitioner worked with the accountants to insure they had all the necessary books and records to complete these report.

### THE SCHEDULES

- volved, it became obvious after the petition was filed that additional time would be necessary to get together the schedules, executory contracts and statement of affairs required by this Court. Accordingly, petitioner filed two applications for extensions of time to file these documents, which applications were granted giving debtor until July 17, 1970 to file the schedules. Even trying to meet this time limit was a monumental task. Associates in this office worked daily and evenings with personnel of debtor to complete the schedules which were put together and typed in this office. In addition, all the contracts had to be reviewed by petitioner in order to determine the nature of the assets, determine how to preserve them, and also to see which contracts should be rejected.
- 19. The schedules were eventually filed on July 21, 1970 and listed over 230 creditors of all categories. The schedules comprised 40 pages not including the contracts and other documents attached. In addition, approximately 58 separate executory contracts comprising over 300 pages, were appended to the schedules. A new summary of debtor's assets and liabilities was prepared and filed. This summary showed

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total debts of \$1,647,724.62 of which \$1,181,404.88 were unsecured and \$462,917.55 were secured. These were wages due of \$920.25, taxes due to the United States of \$2,481.94 and miscellaneous other claims of \$920.25. The total balance sheet assets shown on this summary amounted to \$1,107,107.76. The schedules also contained the narrative icems for the statement of afrairs which debtor was required to file. Petitioner obtained all the information for said items and prepared same for inclusion with the schedules.

## STAY OF ACTIONS

- 20. After the order of continuance was signed, petitioner took steps and negotiated with plaintiff's attorneys to halt lawsuits which were then pending or which thereafter were instituted against debtor. These included the following:
- Berne Greene v. Chelsea House suit in the Civil Court of the City of New York for the return of property
- H. Wolff Book Mfg. Co. v. Chelsea House a suit for \$20,000 brought in the Supreme Court of the State of New York:
- (c) Lindenmeyr Paper Corporation v. Chelsea House - a suit for \$10,000 brought in the Supreme Court of the State of New York;
- Rayne Lithographers v. Chelsea House a (d) suit for \$1,600 brought in the Civil Court of the City of New York;
- Mary Lunenfeld v. Chelsea House, et al., a (e) suit for \$6,000 brought by a shareholder of the Company in the United States District Court of the Southern District of New York;

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- (f) Scholastic Aids v. Chelsea House a suit for \$20,250 in commissions brought in the Supreme Court of the State of New York, County of Kings. In connection with this action petitioner prepared schedules of the sales records of debtor to show to the plaintiff that no sums were due to the plaintiff by the debtor. As a result, not only was the action stopped but the plaintiff did not press any claim in this proceeding;
- (g) A summary rent proceeding brought on by the landlord to evict debtor from its premises;
- (h) Chemical Bank v. Chelsea House, et al. a suit in the Supreme Court of the State of New York brought to collect on a \$200,000 loan made by debtor;
- (i) In addition, negotiations took place by petitioner with The New York Telephone Company which, upon commencement of the arrangement proceeding, took steps to disconnect telephone services to the debtor. The services were restored after the negotiations;
- Inc. v. Filmvideo Releasing Corporation, an action against debtor in the Supreme Court of the State of New York on a \$48,000 promissory note, the plaintiff-creditor continued to take tion in spite of the arrangement proceeding and obtained a judgment in violation of the order of continuance and also served restraining notices on over 17 banks and other institutions, including debtor's bank, Chemical Bank. This completely halted the operations of debtor and threatened its very existence. Petitioner had immediate discussions with the attorney for the plaintiff to remove the restraining notices, and when this was refused, an order to show cause for contempt

and to have the restraining notices lifted was brought on before this Court by petitioner. At the hearing on this matter,
the plaintiff creditor agreed to withdraw all such notices and
to refrain from any further actions to enforce the judgment or
proceed in the suit. Petitioner helped with the preparation
of all of the withdrawal notices to insure that all 17 institutions were informed immediately.

### CERTIFICATES OF INDEBTEDNESS

- 21. At various times throughout the proceeding, and particularly in the earlier periods of this Chapter XI proceeding, debtor's cash flow was not sufficient to meet its weekly operating needs, including payroll, rent expenses and progress payments that had to be made to authors in order for debtor not to lose its right to publish works. Because of this, debtor sought petitioner's advice on various ways to raise capital and continue operations in a way that would protect the lender of the funds. Andrew E. Norman, the president of debtor, was willing to lend funds at various times if sufficient protection could be obtained. Accordingly, after negotiations with Mr. Norman and his independent counsel, petitioner drafted a certificate of indebtedness which was found acceptable to Mr. Norman and his counsel and thus a source of the funds needed by debtor was obtained and debtor was able to continue operations.
- 22. Petitioner prepared and filed seven separate applications to obtain approval for the debtor to issue each such certificate of indebtedness. Each such application explained in detail the purposes for which the funds were to be expended, and each was preceded by negotiations with Mr. Norman and his counsel, and also by discussion and negotiation

with either the creditors committee or the attorneys for the creditors committee. Pursuant to these applications, the Court entered orders on the following dates, authorizing certificates in the following amounts:

Date	Amount
July 10, 1970	\$25,000
July 23, 1970	25,000
August 21, 1970	15,000
September 4, 1970	10,000
September 3, 1971	4,000
January 11, 1972	5,000
April 28, 1972	6,000

GENERAL ADMINISTRATION OF DEBTOR'S ESTATE AND REALIZATION AND PROTECTION OF ASSETS OF THE DEBTOR.

Petitioner instructed and advised the debtor's management in the preparation of the monthly financial reports which have been filed continuously in this Court. Initially, before debtor's records could be straightened out, it was impossible to properly take an inventory, and accordingly petitioner obtained an order waiving the inventory requirement for a period of time. Petitioner advised debtor on the cancellation of leases, tax returns and on practically every aspect of debtor's business. Petitioner not only acted in the position of a house counsel to debtor, but, also, handled many daily matters which normally would be handled by management of a company itself, but because of the fact that debtor was in Chapter XI and operated with a minimum number of officers, were left to petitioner to handle. This entailed a great deal of purely clerical work which debtor simply could not do on its own.

- 24. As indicated, debtor listed over 230 creditors on its schedules. Over 170 proofs of claim have been filed.

  Because of this great number, petitioner has necessarily had to respond to many levers and calls from various creditors and their attorneys on the status of the proceedings over a period of two and one-half years. The absence of a large management and clerical group added to the burden placed on petitioner in this respect. This also necessitated a close following of the claims docket in order to evaluate the possibility of getting sufficient acceptances, to eliminate duplications, to determine the exact amount of moneys needed for the deposit, and to make objections to claims.
  - 25. Several of the more important matters handled by petitioner which were necessary to continue operations of debtor throughout the proceedings and preserve the assets are as follows:
    - (a) Petitioner negotiated with Random House who had published or were going to publish many of the literary works of debtor in existence or being developed at the time the petition was filed. Random House had a lien on all of the books against anyances previously made and could foreclose. Moreover it was evident that debtor itself would be unable to complete many of the works then in process. Negotiations with Random House resulted in Random House taking on the responsibility, for a fee, of completing said books and getting them into distribution while still preserving debtor's royalty rights. This resulted in a substantial lessening of the claim of Random House (which has been filed in the amount of \$380,000)

against the debtor since works were able to be completed and sold to reduce that claim.

- (b) It became obvious after the Chapter XI proceedings were instituted that outside capital would be needed in order to come up with a plan to pay creditors anything. Petitioner prepared a detailed factual booklet containing relevant information about the debtor which could be presented to third parties to interest them to invest in debtor. Your deponent, on behalf of debtor, actively sought out said third persons and negotiated with Books for Libraries Inc., Loeb Rhoades, and others.
- Revenue Service contacted petitioner to require that all employee withholding taxes and federal insurance contributions be remitted directly by debtor weekly to the IRS. Since debtor's payroll, including taxes, was handled completely by Chemical Bank, petitioner obtained permission from the IRS for this method of payment to continue to be used. An application to approve this arrangement was prepared by petitioner and submitted to this Court whose approval was given on August 14, 1970.
- (d) Debtor obtained an order from the United
  States Army for four of its history machines. The
  total contract price was \$9,148.80, with debtor to
  receive, after manufacturing costs, approximately half
  of this amount. The order was considered vital to the
  continuation of debtor's business, and as a stepping

stone to larger and more lucrative contracts with the United States Army and with other government agencies. Debtor did not have sufficient funds to pay the supplier of the machines in full in advance as the supplier was demanding. Petitioner worked out an arrangement whereby the supplier, Reela Film Laboratories, Inc., Miami, Florida, would accept an initial payment by debtor of only 50% of the cost (approximately \$2300, which debtor had), and would accept payment for the remaining amounts due by taking a security interest in the proceeds debtor was to receive from the Army. After these negotiations were completed successfully, petitioner prepared a pledge agreement and UCC-1 filing statement to cover the transaction. Petitioner filed an application to this Court to authorize debtor to complete the transaction, and by orders dated August 18 and September 1, 1970 approval was given by this Court.

(e) At the time of the filing of the petition debtor was in the midst of completing a major five-volume reference work entitled Conservation in the United States: A Documentary History. Prior to the petition debtor had entered into an agreement with Litton Educational Publishing Co., Inc. ("Litton") whereby Litton agreed to purchase from debtor 3500 completed sets of the Conservation series at a price to debtor of \$75 per set, or \$262,500, payable in three instalment payments of \$87,500, the first of which was paid at the time the agreement was signed. At the time the petition was filed, two volumes of the

Conservation series were substantially ready and three remaining volumes were at University Graphics, Inc. being put into final proof ready for manufacturing. However, the initiation of the Chapter XI proceeding, and debtor's lack of cash funds to pay amounts due to University Graphics, Inc. on delivery of proof on each volume, meant work on the Conservation series was halted and the whole project in jeopardy. In order to insure completion, petitioner and debtor renegotiated the original contract with Litton. The end result was that Litton insured payment directly to University Graphics, Inc. for work performed by University to complete the Conservation project; paid to debtor \$87,500 as a final payment due debtor; and then assumed sole responsibility for manufacturing the 3500 sets. Litton also honored all portions of the original agreement dealing with copyright, has still listed Chelsea House as co-publisher. Petitioner presented the entire matter to the Court for approval in an application dated August 26, 1970 and the Court subsequently entered an order authorizing the transaction, This transaction presented great advantages for dibtor since it insured completion of the Conservation series resulted in debtor obtaining an immediate payment of \$87,500; and relieved debtor of the problem of obtaining enough income to pay University Graphics, Inc. and of the substantial work and expense involved in the manufacturing of the 3500 sets.

(f) Petitioner explained this Litton transaction fully at a meeting of the creditors committee held on

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August 24, 1970, in order to obtain their approval before submitting it to the Court. An agreement was entered into with the creditors committee that the funds from this transaction be put into a special bank account at the Bank of Commerce which was described above.

- (g) A supplier of debtor who, at the time the petition was filed, held certain mechanical drawings of debtor which were needed to complete the Conservation series, refused to turn over the property until he was paid for a pre-bankruptcy debt. Petitioner filed a motion with supporting affidavit to require the property to be turned over. As a result of the filing of the motion, the property was turned over to debtor without the need for a court hearing and the motion was then withdrawn.
- (h) Just prior to the arrangement proceeding a portion of a film library owned by debtor was destroyed in an explosion and fire. Petitioner brought a suit in the Supreme Court of the State of New York against Con Edison, the Home Insurance Company, and Novo Corporation, the owner of the premises where the film was stores, seeking \$40,000 in damages and pursued the action during the Chapter XI proceedings. Since the exact origin of the fire was not known, the facts surrounding who was responsible for the explosion and the legal concepts of liability were necessarily complex. Petitioner took the depositions of all three defendants, and in turn presided when various defendants took the deposition of officers of debtor. This suit is still pending at the present time.

- (i) An insurance claim involving loss of manuscripts was brought to a successful settlement by petitioner after investigations of the facts and negotiations with the insurance company. The settlement resulted in a \$5,000 payment being made to debtor and was approved by this Court by order dated March 24, 1972.
- program was in an entirely confused state. There were bills for commissions from various salesmen of debtor which were not supported by the sale. Petitioner worked many hours with the debtor to reorganize the sales records, and petitioner contacted directly various commission agents and also customers to verify whether sales had actually been made. After investigation it turned out that said commission agents were not entitled to commissions because the sales they claimed commissions on were returned and petitioner was able to get these commission agents to withdraw their claims for commissions. Moreover, the investigation resulted in debtor discovering and collecting many receivables which otherwise might have been lost.
- (k) After the petition was filed, it came to the attention of the Court that certain mysterious letters and pamphlets concerning the debtor and its Chapter XI proceeding were being circulated to debtor's creditors. These materials were derogatory to debtor and obviously meant to hinder debtor's rehabilitation. Petitioner, at the request of the Court, made a thorough investigation into the facts, and, although unable to

discover the person responsible for these matters,
was able to establish conclusively to the Court that
the debtor had nothing to do with it and that no funds
of the debtor were expended in connection with these
derogatory materials. Petitioner made numerous phone
calls to creditors assuring them that debtor had nothing
to do with this matter. The matter was finally turned
over by petitioner, at the Court's request, to the
U.S. Attorney for the Southern District of New York
and to the F.B.I. for investigation of the facts and
any possible criminal violations.

- (1) Petitioner filed an application and obtained Court approval for debtor to sell excess furniture it was not using.
- (m) Debtor and Xerox Corporation, through its business unit R. R. Bowker Company, entered into a contract dated April 24, 1972, for the publication and sale of a 4-volume reference work entitled History of U. S. Political Parties produced by debtor (the "Bowker contract"). As was the case with the five-volume Conservation series described above, a large lump sum payment was due debtor upon completion of Political Parties, but in the meantime debtor had to bear all the costs of completing and manufacturing this work. The Bowker contract provided for a payment of \$162,500 at the end of 1972, provided that debtor delivers to Bowker the 2500 sets of Political Parties before the end of the year. Debtor did not have sufficient funds! to complete this work since substantial progress payments had to be made to typographers and manufacturers

Petitioner negotiated with the typographers and manufacturers and obtained agreements from them that they would complete the project without the progress payments, but rather would accept an assignment of part of the proceeds of the Bowker contract to pay for their work. This was of great benefit to debtor since, in effect, it meant Bowker would be paying the manufacturing costs directly, without any diminution of the net profit debtor itself would receive under the Bowker contract. Petitioner obtained approval from the attorney for the creditors committee for this method of payment and submitted two separate applications to obtain Court approval which was granted in orders dated September 20, 1972 and October 12, 1972. Thus the completion of this important work was assured.

(n) Because of other costs involved in the manufacture of the Political Parties, debtor needed additional funds in the fall of 1972 to cover overhead and expenses in connection with other developing projects. Petitioner entered into negotiations with Andrew Norman and his independent counsel and was able to obtain an agreement whereby Mr. Norman would lend debtor funds and take an assignment of part of the proceeds of the Bowker contract. . security agreement was drafted by petitioner, and upon acceptance by Mr. Norman's attorney, was submitted to this Court as part! of an application to authorize this borrowing, which was granted in an order dated September 20, 1972. Prior to submission to Court, petitioner discussed the matter fully with the attorneys for the creditors committee and obtained their approval.

# THE CONSOLIDATION PROCEEDINGS AND OTHER CONTESTED MOTIONS

- 26. Prior to the Chapter XI proceeding, debtor and its 96% owned subsidiary, University-at-Large Programs, Inc., ("University") were closely entwined in their operations; the same personnel, offices, telephones etc. being used for both. After the Chapter XI proceedings were instituted, and an independing Chapter XI proceedings was also instituted by University, petitioner, at the request of debtor, made an application to consolidate the proceedings of the two debtors.
- 27. The motion for consolidation required notice to all affected creditors which was given by petitioner after consultation with the administrative clerk of the Court. Two creditors of both debtor and University filed affidavits oppos ing the motion and thus a full-scale hearing on the issue was required. It was necessary in connection with the consolidation hearings for petitioner to make an extensive review of the accounting, business procedures and relationships between the two companies for a period of two years before the petition was filed. To do this, both J. K. Lasser & Co., Inc., the accountants acting for the creditors committee to review the books and records of the debtor, and Price Waterhouse & Co., the former accountants of the debtor, were interviewed in depth by petitioner, and worked with to determine what testimony would be required at the consolidation hearing. Petitioner thoroughly acquainted itself with the 13 page report of J. K. Lasser & Co. which went into aspects of the financial details of both companies.
- 28. Evidence on the consolidation hearing was taken on four different days before Referee Loewenthal. Besides

three officers of the debtor and its bookkeeper, petitioner presented testimony of accountants from Price Waterhouse and J. K. Lasser. All such witnesses had to be prepared by petitioner, and the books and records gone over with them. All of debtor's books and records were marked as exhibits. Moreover, while the hearings were pending, the Court allowed the opposing parties to inspect all records and relevant correspondence Petitioner arranged for and supervised this inspection.

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- 29. At the end of the hearings, Referee Loewenthal indicated from the bench that he would deny the motion for consolidation, but would give delear, and the opposing parties, an opportunity to submit briefs, findings of fact and conclusions of law to him for consideration in making his final decision. Petitioner, after extensive research, submitted a 20-page brief and 9 pages of findings of fact and conclusions of law. Petitioner also submitted an 8-page reply brief to answer points raised in the briefs submitted by those creditors opposing consolidation. After reviewing these briefs, Referee Loewenthal reopened the consolidation hearings on the basis that petitioner's brief had convinced him that consolidation should be granted, and he wanted to give the opposing creditors a further opportunity to put in any evidence in opposition to consolidation.
- 30. After taking further testimony at another hearing the matter was again left for adjudication by the Court after the parties had submitted further briefs. However, since it was likely that an appeal would result no matter which way the motion was decided, prior to a decision on the merits of the motion, and with the consent of the Court, discussions were had by petitioner with the creditors opposing the motion and

the attorneys for the creditors committee to attempt to settle the matter. Upon seeing that a feasible separate plan of arrangement could be worked out for University, the consolidation motion was withdrawn.

- 31. At the time the consolidation hearings were being presented, a motion was brought on against debtor by one of University's creditors to have debtor turn back funds allegedly wrongfully paid by University to debtor during the Chapter XI proceedings. Petitioner opposed this application and presented affidavits to the Court and oral argument establishing that the payments made to Chelsea House were proper. It was shown that Chelsea House paid directly to suppliers of forvices all the current operating expenses of both debtor and University and then allocated a certain portion of said expenses to University since it shared the office space, telephone and personnel with debtor. It was to pay for this portion of the expenses that University made payments to debtor. The application for a turnover order was never granted by the Court, and was subsequently withdrawn by the creditor presenting it at the same time as the consolidation motion was withdrawn.
- 32. A motion to adjudicate Chelsea House a bankrupt for committing an act of bankruptcy was brought on by a creditor alleging that debtor had wrongfully granted a security interest in some of its works. Petitioner successfully opposed that motion and prepared extensive affidavits for the Court establishing that no acts violative of the Act were committed by the debtor. Effective opposition to the two motions just described was essential to continue operations of the debtor and provide a return for the creditors.

- 33. At a very early point in these proceedings meetings were had with the creditors committee and their counsel looking to the working out of a suitable plan of arrangement. Debtor looked initially in two directions for an underpinning of a plan. The first was a hoped for significant upturn in the educational market due to increased funding by the United States Government, which could result in highly increased revenues for debtor, particularly from its History Machine, to generate funds for a plan. The second avenue was infusion of capital by way of merger with other companies. Petitioner, and your deponent in particular, made great efforts, described earlier in this petition, to pursue the second avenue.
- 34. These efforts and the general financial condition of debtor were described by petitioner in company with officers of debtor at creditors meetings called by the creditors committee on August 24, 1970, December 22, 1970 and February 19, 1971. Petitioner helped the officers of the debtor prepare budgets and extensive written reports of operations that could be read and distributed to the creditors at these meetings.
- 35. The February 19 creditors meeting was particularly important. At this meeting the accountants, J. K. Lasser, presented their report, which showed the a liquidation of debtor's assets would produce very little, since the assets required an ongoing business. At this meeting debtor's officers were questioned extensively about possible future operations, and a decision was made by the creditors to allow the

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debtor to continue operations for a period of time in order to raise capital from other sources to make a plan feasible.

- 36. During intervals between meetings with the creditors, petitioner and counsel for the creditors committee were in frequent contact concerning a possible plan. It became evident in the ongoing months that the hoped for upturn in the educational market and increased government spending was not forthcoming, and the extensive efforts of petitioner and officers of debtor to obtain capital by way of a merger were not successful in that potential investors were unwilling to make large initial cash payments which would have to be obtained to make a plan feasible.
- 37. Petitioner then began negotiations with Mr. Norman and his counsel to obtain from him a commitment for the funds necessary for a plan. In discussions with Mr. Norman or his attorneys, much further checking had to be done into debtor's schedules in order to determine the exact amount of funds that would be necessary for a plan based upon a payment to creditors of a percentage of their debt.
- 38. Petitioner ascertained from Mr. Norman that funds might be obtained to pay creditors 15% of their claims at sixmonth intervals starting six months after confirmation, the first two payments to be guaranteed. This proposal was based upon certain contemplated business transactions of debtor being successfully implemented, in particular a contemplated distribution agreement for the History Machine, and thus was tentative. This proposal was discussed by petitioner with counsel for the creditors committee who indicated that any plan must provide for some cash on confirmation. Petitioner was able, after negotiations with Mr. Norman, to change the

CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC., Debtor

proposal to provide for the first payment on confirmation.

39. This tentative proposal was submitted to the creditors at a meeting called by the attorneys for the creditors committee and held on September 13, 1971. At this meeting petitioner also presented certain alternative options whereby creditors could elect to take stock instead of cash. The creditors indicated that a 20% plan would be the minimum acceptable and pressed for an additional 5% payment. The creditors also pressed that each be given a small amount of stock in addition to any cash payment. Negotiations ensued at the meeting by petitioner both with the creditors and Mr. Norman. Debtor and Mr. Norman indicated a willingness to accede to the request of the creditors provided that the contemplated business transactions which Mr. Norman required in order to back a plan be successfully completed.

this metting was an agreement petitioner had worked out with debtor's landlord whereby the landlord would release debtor from its long term lease for the sixth floor at 70 West 40th Street in return for a lump sum payment of \$20,000 upon confirmation and a slight increase in rent for the eighth floor space which debtor would retain. The creditors agreed to this arrangement provided that it was made as part of a plan of arrangement, and the lump sum payment made to the landlord at the time of confirmation. However, petitioner had the landlord accept this and agree that payments for the sixth floor space could be stopped immediately, long prior to confirmation, thus resulting in a great savings of overhead to debtor.

his attorneys met with the attorneys for the creditors committee on December 20, 1971 to discuss a new proposal consisting of a cash payment on confirmation of 2-1/2% (the moneys to be provided by Mr. Norman) and promissory notes for 12-1/2% payable at stated intervals over a three-year period. In the prior negotiations with Mr. Norman's attorneys, a condition of Mr. Norman's commitment to put up the cash was that he be given priority in repayment if there was ever a bankruptcy after confirmation. This aspect of the plan was fully discussed by petitioner at the meeting.

44. This proposal was submitted to the creditors by petitioner at a long meeting held on December 29, 1971 at the offices of the attorneys for the creditors committee, at which officers of debtor, Mr. Norman and his attorneys were present. Negotiations took place, with the creditors again insisting on at least a total payment of 20%. Petitioner, on behalf of debtor, acceded to the additional 5% but obtained agreement from the creditors for a longer payout schedule for the promissory notes. Thus agreement was made on 2-1/2% in cash on confirmation and 17-1/2% in the form of promissory notes payable in 2-1/2% increments over a 45-month period.

### THE OFFERING TO SHAREHOLDERS

45. The agreement on the percentage of the cash and notes that would be given to creditors was only the beginning step on a long and arduous road to the completion of a written plan and the actual receipt of the cash funds needed for confirmation. Constant meetings were had by petitioner with officers and large shareholders of the debtor to work out the legal and financial details of obtaining the \$250,000 and to determine what would be given the person or persons who

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advanced such funds. Petitioner participated in all discussions and in particular handled all the extended negotiations that took place with Mr. Norman's independent counsel.

- 46. Eventually it was decided that the best course to follow would be for debtor to give all of its shareholders the chance to participate by offering each the right to subscribe to an offering of senior convertible debentures in the amount of \$255,000 on a pro rata basis. Mr. Norman made a commitment to buy his pro-rata portion, and any portion not subscribed to by other shareholders.
- 47. Petitioner prepared the documents involved in the debenture offering. It was necessarily complex since clauses had to be included: (1) explaining the Chapter XI proceeding and the plan; (2) providing that the convertible debentures would be senior to the promissory notes issued to creditors under the plan; (3) providing for the conversion rate at which debenture holders could convert to shares, including contingencies for mergers, dividends, etc.; and (4) providing for voting rights to debenture holders the same as shareholders. Petitioner spent an enormous amount of time drafting this debenture. Each provision had to be negotiated or discussed not only with the debtor but with the attorneys for Mr. Norman necessitating constant redrafting to work out agreeable language. A conversion rate had to be determined and it was set at \$.05 per share. In its final form the debenture consisted of 25 pages plus accompanying subscription forms, an offering letter and other documents. Petitioner had to go through the stock books of debtor to determine the exact amount of shares owned by each so that the proper pro-rata share could be offered to each shareholder.

agent to hold the funds paid in by subscribing shareholders and a complex 8-page escrow agreement, tied into confirmation of the plan, was prepared in connection with the debenture offering. It was always contemplated that in the event the plan of arrangement was not confirmed, all of the moneys raised from the debenture offering would be returned to the persons providing such funds. Provisions to this effect had to be drafted by petitioner and included in the debenture offering and escrow agreement. In addition, just prior to the time funds were turned over to the disbursing agent, petitioner filed an application and obtained an order, dated October 10, 1972 directing the disbursing agent to return the moneys put up for the deposit to the person (Mr. Norman) who provided said funds in the event the plan was not confirmed.

LT 62" 20" ".

49. Once the terms of the debenture were set, petitioner arranged for the calling of a formal meeting of debtor's board of directors at petitioner's office on June 26, 1972, and deponent acted as secretary of the meeting. Petitioner explained in detail the terms of the debenture offering, and also of debtor's plan of arrangement. Resolutions were passed authorizing the debenture offering and the plan. Petitioner also informed the directors that the debtor's Certificate of Incorporation would have to be amended because of the debenture offering in order to increase authorized shares by 4,000,000 to cover the conversion rights provided for in the debentures and to provide for voting rights by debenture holders. Petitioner had prepared such an amendment of the Certificate and it was submitted to and approved by the directors. Subsequently, petitioner took the steps necessary to file this

Certificate with the Secretary of State. Petitioner also advised the board to authorize the calling of a special meeting of the stormalders to approve the amendments to the Certificate of Incompation as required by New York's corporation law.

- 50. Petitioner took all the necessary steps to call the special meeting of shareholders which was held at the offices of the debtor on July 28, 1972. Petitioner participated at that meeting at which shareholder approval was obtained, and acted as secretary of the meeting. Petitioner prepared the minutes of this meeting and the board of directors meeting.
- After this meeting petitioner sent out the approved debenture offering to all the shareholders. Petitioner responded to a number of calls from shareholders about various terms of the offering. Subsequently, when acceptance of debtor's plan of arrangement took longer than had been expected, petitioner had to prepare and send to the shareholders extensive documents extending the time within which shareholders could subscribe to the debenture offering, and also to extend the time limits set forth in the escrow agreement. Moreover, the plan of arrangement was modified in certain respects, again requiring petitioner to prepare modifications of the debentures and escrow agreement. Ultimately, the entire convertible debenture in the amount of \$255,000 was purchased by Mr. Norman and the moneys paid in to petitioner as escrow agent. Subsequently, petitioner turned over \$246,000 to the disbursing agent.
- 52. In connection with the convertible debenture offering, one major shareholder of the debtor threatened to

debenture. Petitioner entered into negotiations with the shareholder and his attorney in order to try to resolve the matter or clarify the situation. Although nothing definite was agreed upon, the shareholder has not instituted any action against the debtor.

#### THE PLAN OF ARRANGEMENT

- itself was more difficult and time consuming than is normally the case in a Chapter XI proceeding because the persons putting up the cash funds required disclosure of the basic terms of the debenture offering in the plan itself. A separate provision for the agreement made with the landlord, described above, had to be included. Moreover, the promissory notes to be issued to the creditors which were to be subordinated to the convertible debentures purchased by the shareholders were annexed as exhibits to the plan. The preparation and drafting of this note involved careful consideration and language concerning the various rights of the parties involved. These provisions had to be explained fully to numerous creditors who called inquiring about them.
- and sent out by the Court to creditors. However, because of

  (1) changes requested by Mr. Norman and his attorneys based

  upon changes in the debenture; (2) the fact that the consolidation motion was withdrawn and thus the debtor's plan not tied

  into University's plan; and (3) other changes requested by the

  attorneys for the creditors committee, petitioner was required

  to prepare a modified plan of arrangement dated June 15, 1972.

  Petitioner prepared an application and order proposing the

modification, which order was signed by the Court and the modified plan sent to creditors. Subsequently petitioner prepared two separate applications for immaterial modifications of the plan which simply extended the time set forth in the plan within which confirmation was to occur.

- 55. On June 26, 1972 petitioner attended a creditors meeting at which the modified plan as finally drafted was discussed and explained, particularly the subordination provisions. Subsequently petitioner worked in conjunction with counsel for the creditors committee in preparing a form of acceptance which was sent to all of the creditors along with a letter from said attorneys recommending acceptance of the plan. In spite of this recommendation, acceptances were slow in coming in. Because of the large number of creditors involved, many with small claims, debtor had difficulty obtaining a majority in number.
- 56. Associates in petitioner's office spent a great deal of time personally contacting creditors to obtain such acceptances, and also in establishing with the Clerk's office that the requisite number of acceptances under Section 362 of the Bankruptcy Act had been obtained. When it became evident that a number of needed acceptances had been rejected because they were not signed by an officer of the creditor, petitioner contacted the creditors directly and obtained new acceptances, properly signed.
- 57. On September 21, 1972, at a hearing, the Court found that sufficient acceptances had been filed. Petitioner prepared and submitted an order which was signed by the Court, finding the plan accepted, closing the first meeting, and appointing the disbursing agent.

# OBJECTIONS TO CLAIM

58. After the plan was accepted petitioner, on behalf of debtor, objected to 18 claims. In each instance it was necessary first to examine whether an agreement existed with the claimant, whether there were any breaches by either side, what the facts involved were, etc. Here the debtor's records were not always clear because many personnel had left during the Chapter XI proceedings when debtor reduced its staff. A summary of the objections follows:

Amount Claimed Allowed  James J. Larkin \$ 1,909.50 \$ 1,309.50  claimed as disallowed priority as priority  Edward McLean & Co., Inc. 3,947.85	Y
James J. Larkin \$ 1,909.50 \$ 1,309.50 claimed as disallowed priority as priority 20,500.00 19,500.00	Y
H. Wolff Book Co.  Figure 4 Molecular Co.  1,309.50  claimed as disallowed priority as priority as priority 20,500.00  19,500.00	Y
H. Wolff Book Co.  Fdward Molecular Co.  Claimed as disallowed priority as priority as priority as priority 19,500.00	Y
H. Wolff Book Co.  Priority as priority 20,500.00 19,500.00	Y
Edward McLoom Co. 20,500.00 19,500.00	
Edward Mot and 6 00 19,500.00	
'Millhou Di-1-11	
5 102 62 A 204 20	
Vocation 649.87 537.89	
6 247 14 5 500 50	
Active Messenger Service 520 AF	
Alpha Business Machines 963 53	
Robert L. Bachner	
Joseph Julian 995.50 expunded 880.00	
claimed as disallowed	
priority	
Garrison Pringing Division 12 877 90	Y
Cine-magnetics	
Jacob Brockman	
VO Dinh	
Kandom House	
National Neugrapes Condition	
Filmwiden Polossin- Com	
David Hoffman	
wishing pending	
e c c Tanaian de pending	
3,500.00 pending	1

59. Necessarily, correspondence, telephone calls and negotiations ensued after the objections were filed. In most instances settlements were made or are in the process of being made with the claimant, with the exception of the objection to the claim of Drum Lithographers, which petitioner's investigation showed that the claimant was entitled to have its claim allowed in full and a withdrawal of the claim was made in Court.

- 60. Where settlements were entered into it was necessary for the petitioner to prepare appropriate orders or stipulations and to bring these before the Court after explaining and clearing them with counsel for the creditor. The orders necessarily had to be served with notice to all parties.
- 61. One of the objections which is still pending, an objection to the allowance of \$200,000 of the \$380,000 claim of Random House, is a very complex accounting claim involving the manufacture and distribution by Random House over the 2-1/2 year period of the Chapter XI proceedings and for prior periods, of many of debtor's literary works against which Random House had made advances to debtor before the Chapter XI proceeding. Petitioner is in the process of working with accountants, officers of the debtor, and Random House on this claim and there is much work left to be done. Hopefully, a settlement can be worked out after further investigation and negotiation in order to avoid court hearings. Some of the other objections still pending are for royalt'es which must be determined based upon examination of Random House's records. These are simply accounting claims which in all likelihood will be settled. Petitioner will not seek any additional allowance for work done in connection with objections still pending, though the time involved will be substantial.
- 62. Because of the manner in which these objections were handled, and the extensive negotiations done by petitioner, it was possible to avoid a full dress trial on most, and hopefully all, of these objections and a fair settlement negotiated in each case by petitioner with counsel for the claimant. It is believed that this saved a great deal of time and expense both for this Court and the debtor.

## WORK IN CONNECTION WITH CONFIRMATION

- filed against the debtor (170), and the large number of scheduled creditors (over 300), and because of a number of reductions, eliminations, or duplications of claims, petitioner was required to spend a great deal of time and render considerable services in preparing the schedules required by this Court for confirmation of the plan. Many visits to the Clerk's office were required. A separate breakdown had to be made on the schedules for each creditor to show the amount of cash to be received on confirmation (2-1/2%) and the amount of notes (17-1/2%). Simply making these hindreds of computations was an extremely time consuming task which necessarily was done by an associate to insure correctness.
- be issued to creditors and give them to the disbursing agent prior to the time the application for confirmation was submitted. This required preparing approximately 150 separate promissory notes. In addition petitioner, as escrow agent, turned over to the disbursing agent \$246,000 out of the \$255,000 provided by Mr. Norman's purchase of the convertible debenture. This amount is sufficient to cover all payments required by the plan. However, in connection with negotiations with the attorneys for the creditors committee, an agreement was made whereby an additional \$8,000 will be available in the event it is needed to consummate the plan, a situation unlikely to occur because of the detailed computations made by petitioner in preparing the schedules.
- 65. In order to conserve cash, petitioner was able to work out an agreement with Mr. Norman, the holder of certifi-

cates of indebtedness, to waive the deposit for interest running on those certificates, and to accept payment of said
interest subsequently out of proceeds of the Bowker contract
described above. This resulted in a waiver of the deposit for
\$17,500 of claims.

- an application for confirmation. On October 31, 1972 petitioner conducted the Court hearing on best interests and feasibility and presented the testimony of the president of debtor on both these aspects of the plan. Petitioner worked with the president prior to this hearing going over all of the assets and the plan in preparation for the testimony, and prepared summary sheets for use in connection with this hearing. After listening to the testimony and examining the debtor, the Court found the plan in the best interests of creditors and feasible.
- 67. On November 3, 1972 petitioner submitted to the Court an order of confirmation with 29 pages of schedules, all of which were computed and prepared by petitioner in its office. The Clerk's office is now in process of checking the schedules. Petitioner is submitting at the same time as this application the certified list of creditors scheduled who did not file claims.

## SUMMARY AND CONCLUSION

of this debtor was substantial and that the assets per its book at the time the petition was filed amounted to over \$1,107,000. The liabilities at the same time were over \$1,647,000. Approximately \$250,000 in cash required to consummate the proposed plan had been obtained, as well as notes in the amount of approximately \$288,000.

Because of many factors described herein, the Chapter XI proceeding lasted a long period of time and the plan of arrangement itself was a complex one, and based upon a success ful offering of the senior convertible debentures. Even before the plan itself became feasible it is apparent from the outline of the facts in this petition that there were great complications and difficulties necessary to be resolved before an acceptable plan could be successful effectuated. These complications arose partly from the nature of debtor's operations as an educational publishing house since it was required, in order to preserve its assets and complete projects, to obtain and expend funds during the Chapter XI proceeding while awaiting lump sum payments upon completion of the work. In spite of the difficulties, debtor was able to complete during the Chapter XI proceeding, with the aid of petitioner, major works such as the five-volume Conservation series, The Documentary History of the Bill of Rights, The American Colonies, the four-volume Political Parties series and other smaller works. Debtor has been able to obtain the rights and start work on other reference works and thus be in a good position to continue on once the Chapter XI proceeding terminates. It also kept intact and developed further its History Machine. The extensive work done by petitioner made it possible for deptor to operate with an extremely small staff and yet complete projects.

The large number of creditors in this case itself created problems and made it an unwieldy and difficult proceeding to handle. The fact that a modified plan was required, after the initial plan had been sent out to creditors, meant that the Clerk's office was required to mail copies of the

plan, with notice, twice to over 230 creditors.

Petitioner believes its efforts benefited the estate and creditors greatly, and that as a result of its efforts not only was a feasible plan worked out, but was also held together in spite of many problems encountered after the first plan was proposed.

Petitioner's records indicates that deponent, a senior partner, partners and associates devoted approximately 1147 hours of time to this matter to date, over a period of two and one-half years, entirely devoted to matters in connection with the arrangement proceeding and preserving assets. Most of this time was spent by either deponent or a senior associate experienced to handle the matter. Petitioner made 41 Court appearances in this matter. This petition itself required numerous hours of work on petitioner's part. In addition, further work on the Random House claim and others remain yet to be done, as well as the administrative work to keep track of payments and the notes to be issued. Petitioner cannot really estimate what time will be required for such future work, but as was explained at the beginning of this application, the fee being requested by petitioner is already far below the time it has expended and no additional fee will be sought by petitioner for additional work.

Petitioner has not received any advance payments for its fees. Neither the debtor nor any other person has made any payment of any kind to petitioner, on account or otherwise.

At petitioner's normal hourly rates, for the 1147 hours expended by it in this proceeding, petitioner would normally request a fee of \$70,227 for legal services rendered, plus \$4,451.55 for necessary disbursements actually expended

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by petitioner on behalf of the debtor per the attached schedule, for a total of \$74,678.55. However, pursuant to the agreement with Mr. Norman described in the first part of this application, an agreement which in and of itself helped make an acceptable plan feasible, petitioner requests that this Court allow a fee of \$50,000 for all services rendered and disbursements incurred.

Dated: New York, New York November // ,1972

Respectfully submitted,
ROYALL, KOEGEL & WELLS

Stuart A. Jackson

200 Park Avenue New York, New York 10017

# CHELSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC., Debtor

The schedule of disbursements incurred and not reimbursed for the period June 15, 1970 to November 9, 1972, attached to and made a part of the application of ROYALL, KOEGEL & WELLS, dated November /0 , 1972, for allowance of attorneys' fees and disbursements.

Telephone calls and telegrams	\$ 345.46
Filing Fees	9.50
Photocopies .	2,680.22
Fares	132.10
Overtime expense	686.13
Meals in connection with overtime	81.06
Extra Postage	131.00
Reporting Services	386.08
TOTAL	\$4,451.55

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In the Matter of

CHFLSEA HOUSE EDUCATIONAL COMMUNICATIONS, INC. (formerly called LOCHSLEY HALL, INC.): ARRANGEMENT d/b/a CHELSEA HOUSE PUBLISHERS,

IN PROCEEDINGS FOR AN

: NO. 70 B 600

Debtor.

STATE OF NEW YORK ) : SS.: COUNTY OF NEW YORK)

STUART A. JACKSON, being duly sworn, deposes and states as follows:

- That he is a senior partner in the firm of ROYALL, KOEGEL & WELLS, the petitioner herein for an allowance as an attorney for the debtor as set forth in the foregoing application; that all of the facts set forth in said application are true and correct except as the same is stated upon information and belief and as to such facts the petitioner believes same to be true and correct.
- 2. That no agreement or understanding exists between the petitioner and any other person for a division of compensation.
- 3. That no agreement prohibited by USC Title 18, \$155 has been made.

Sworn to before me this

day of November, 1972.

SIGMUND KATZ Atterney & Counsellor at Law No. 30-7177600 Qualified in Nassau County Cert, filed with New York County Clerk Commission Expires March 30, 1974

STANION S KATZ Attorney & Comments at Law. Qualified in the deal County latified in The safe Control north Defendant's Exhibit G
Signed Amendment Agreement dated April 10, 1970

#### AMENDMENT AGREEMENT

Amendment Agreement, dated as of April 10, 1970, by and among Harold Steinberg, Harold Harris, Andrew E. Norman, Leon W. Friedman, Stuart A. Jackson, Fred L. Israel, Stephen Wise, Richard Maybruck, Anita London, William P. Hansen, Mary Lunenfeld (hereinafter referred to as "Purchasers") and Jack Oppenheim (hereinafter referred to as "Seller"), amending the Agreement dated April 7, 1970 by and among Harold Steinberg, Harold Harris, Andrew E. Norman, Leon W. Friedman, Stuart A. Jackson, Fred L. Israel, Stephen Wise, Richard Maybruck and Jack Oppenheim (the "Agreement").

For good and valuable consideration, receipt of which is hereby acknowledged, it is hereby agreed that the Agreement is amended as follows:

- 1. The term "Purchaser" wherever used in the Agreement shall refer to those persons referred to in the definition of "Purchaser" in the Agreement, and shall also include Mary Lunenfeld, William P. Hansen and Anita London.
- 2. Exhibit A to the Agreement is hereby amended to read as set forth in Exhibit A hereto.

Joek Flam, Reporter

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written. In the presence of: Andrew E. Norman, Purchaser Stuart A. Jackson, Purchaser and Aformy - in Anita London, Purchaser

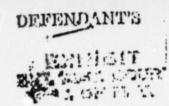
William Hanson, Purchaser

William Hanson, Purchaser

Warn Lucustel by Spens C. Lucuste
Mary Lunenfeld, Purchaser

Jack Oppenheim, Seller

Defendant's Exhibit H
Signed Escrow Agreement



#### ESCROW AGREEMENT

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ir Sirs:

- 1. This will confirm the agreement between Jack
  Oppenheim ("Oppenheim") and Harold Steinberg, Harold Harris,
  Andrew E. Norman, Leone T. Friedman. Fred L. Israel, Stephen
  Wise, Richard Maybruck, William P. Hansen, Anita London,
  Mary Lunenfeld and Stuart A. Jackson (the "Stockholders")
  respecting the agreement by Oppenheim to deposit the shares
  of the Common Stock of Chelsea House Educational Communications, Inc. (the "Company") transferrable by Oppenheim to
  the Stockholders pursuant to the provisions of that certain
  Agreement (the "Agreement") dated April 10, 1970 between
  Oppenheim and the Stockholders.
- 2. Oppenheim hereby agrees to deposit with you fulfally sixteen certificates, each representing the number of shares of the Company as are set forth opposite the names of the Stockholders in Columns 3 and 4 of Schedule I hereto. The 112,2% total of all such shares is 122,2% and are hereinafter called the "Escrow Shares". Each certificate shall be accompanied by at least one stock power duly signed in blank on behalf of Oppenheim. You hereby agree to hold

Jackson 4

and distribute the Escrow Shares as provided herein.

- 3. Such of the Escrow Shares as are set forth opposite each of the respective Stockholors' names in Columns 3 and 4 of Schedule I hereto shall serve as security for the full payment of the notes, delivered by such Stockholder to Oppenheim under Paragraph 2(b) of the Agreement, set forth in Columns 6 and 7 of said Schedule I.
- 4. In the event that Oppenheim shall assert that any Stockholder has defaulted in performing any of his obligations under the notes delivered by such Stockholder to Oppenheim under Paragraph 2(b) of the Agreement, Oppenheim shall, in order to enforce payment hereunder, notify you in writing with a copy to the Stockholder, all by registered or certified mail addressed as hereinafter set forth, specifying the nature of the default which has allegedly occurred. If, within ten (10) days after the mailing of such notice, the Stockholder fails to cure such default and reimburse Oppenheim for all loss, damage and expense incurred by Oppenheim in consequence of such failure, Oppenheim shall be entitled to receive all of the shares then being held by you as are set forth opposite the Stockholder's name in columns 3 and 4 of Schedule I hereto;

provided, however, that if within said ten (10) day period the Stockholder notifies you in writing by registered or certified mail with a copy to Oppenheim that he denies or disputes the alleged default, the controversy shall be promptly resolved by arbitration in New York, New York, in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

- 5. If any claim of a default is not contested by, or if it is contested but thereafter determined to be a default by, the Stockholder, Oppenheim shall be entitled to receive all of the Escrow Shares set forth opposite the Stockholder's name in Columns 3 and 4 of Schedule I hereto.
- Oppenheim, and addressed to any Stockholder, for the sum set forth with respect to such Stockholder opposite his name in Column 6 of Schedule I hereto, together with acknowledgment by Oppenheim that there have been no uncured defaults by such Stockholder in interest payments by such Stockholder, you shall deliver to such Stockholder that number of shares of the Escrow Stock as are set forth opposite his name in Column 3 of Schedule I hereto. Upon

receipt by you of a receipt executed by Oppenheim, and addressed to any Stockholder, acknowledging that a sum equal to the total of the amounts set forth with respect to such Stockholder's name in Columns 6 and 7 of Schedule I hereto, has been received by him under the Agreement, and that there have been no uncured defaults in interest payments by such Stockholder, you shall deliver to such Stockholder that number of shares of the Escrow Stock as equal the total number of shares in Columns 3 and 4 of said Schedule I set forth opposite such Stockholder's name.

- 7. Dividends (other than dividends payable in stock of the Company) declared and paid upon any "scrow Shares shall, while such shares are held on deposit by you under this Agreement, nevertheless belong to the Stockholders and shall be remitted to the Stockholders, upon receipt thereof, and the Stockholders shall have full voting rights with respect to the Escrow Shares.
- 8. In the event that, on May 1, 1972 you shall then be holding Escrow Shares, you shall return to each Stockholder that number of Escrow Shares as are set forth opposite his name in Columns 3 and 4 of Schedule I thereto,

less the sum of (i) that number of Escrow Shares which have been previously returned by you to such Stockholder pursuant to Paragraph 6 hereof and (ii) such number of Escrow Shares as may be necessary to satisfy any claim for default previously asserted (but not yet determined) against such Stockholder, as described in Paragraph 4 hereof.

- 9. In performing your duties hereunder, you will be entitled to rely on statements furnished to you by Oppenheim or the Stockholders, acting jointly, or on other evidence deemed to you to be reliable, and to act on the advice of counsel selected by you. Under no circumstances shall you be liable for any error, act or omission in good faith. You shall be entitled to reimbursement for any loss, cost, damage and expense incurred by you in the administration of this Escrow Agreement. You may resign by instrument in writing delivered to Oppenheim and the Stockholders. Such resignation shall be effective upon appointment of a successor escrow agent satisfactory to all parties hereto.
  - stock of the Company through merger, consolidation or reorganization, or in the event of any dividend to holders

of such stock payable in stock of the same class or the issue to such holders of rights to subscribe for stock in the same class, or in the event of any other change in the capital structure of the Company, the additional or reclassified shares or other securities issued or exchanged on account of the original Escrow Shares shall be added to and become Escrow Shares hereunder for all purposes.

- 11. All notices hereunder shall be given to the respective parties hereto as follows:
  - (a) If to Oppenheim, 241 Central Park South, New York, New York; or
  - (b) If to the Stockholders, c/o Harold Steinberg, Chelsea House Educational Communications, Inc., 70 West 40th Street, New York, New York (with a copy to Royall, Koegel & Wells, 200 Park Avenue, New York, New York, New York, attention Stuart A. Jackson); or
    - (c) If to you,
- 12. The stockholders and Oppenheim shall each pay one-half of your expenses hereunder.

- · 13. This Escrow Agreement shall be construed in accordance with the laws of the State of New York.
- 14. This Escrow Agreement shall inure to the benefit of and be binding upon the parties hereto, and each of them, and their respective heirs, successors and assigns.

Your endorsement on the enclosed two copies of this letter will evidence your acceptance of the 146,183 shares of the Common Stock of Chelsea House Educational Communications, Inc. on the terms and conditions herein set forth.

Very truly yours,

Look W: Freduch

There of Donners
Fred. I. Israel
Stephen Wise of Sapka Wise  Richard Maybruck
Stuart A. Jackson afternoon
Anita London atty
William P. Hansen
Molang Lunenfeld Aug.
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Accepted:

\$169,274.50	\$169,274.50	\$100,000		56,425	56,425	37,333	146,183	TOTAL
2,316.00	2,316.00	1,368		772	772	456	2,000	ary Lunenfeld
1,693.00	1,693.00	1,000		565	564	333	. 1,462	illiam P. Hansen
2,316.00	2,316,00	1,368		772	772	456	2,000	nita London .
16,926.00	16,926.00	10,002	•	5,642	5,642	3,334	14,618	tuart A. Jackson
5,790.00	5,790.00	3,420		1,930	1,930	1,140 . :	5,000	ichazá Maybruck
11,580.00	11,580.00	6,840		3,860	3,860	2,280	10,000	taphen Wise
1,693.00	1,693.00	1,000		564	565	333	1,462	red L. Israel
846.00	846.00	501		e e	\$	167	731	eon W. Friedman
68,658.50	68,658.50	40,559		22,886	22,886	13,520	59,292	ndrew E. Norman
40,530.00	40,530.00	23,940		13,510	13,510	7,980	35,000	arold Harris
\$ 16,926.00	\$ 16,926.00	\$ 10,002		5,642	5,642	. 3,334	14,618	arold Steinberg
Principal Amount of Note Due April 10, 197	Principal Amount of Note Due April 10, 1971	Amount to be delivered to Oppenheim at Closing	of Shares of Shares Delivered COM TO Note Iden- in Col. 7	Number of Share To Be Delivered In Escrow To Secure Note Ide tified in Col.	Number of Shares To Be Delivered In Escrow To Secure Note Iden- tified in Col. 6	Number of Shares of the Stock To Be Received at Closing	Total Number of Shares of The Stock To Be Purchased	Name of Purchaser

## Defendant's Exhibit I

Two Promissory Notes dated April 10, 1970, each in the sum of \$16,926; Stuart A. Jackson as Promissor and Jack Oppenheim as Promissee

DEFENDANCES C. T. M. S. L. C. S. C.

6,926.00

April 10, 1970 New York, New York

#### PROMISSORY NOTE

For Value Received, Stuart A. Jackson hereby promises to pay to the order of Jack Oppenheim at the 350 Fifth Avenue office of the Bankers Trust Company of New York, the principal sum of sixteen thousand nine hundred twenty-six Dollars (\$16,926.00) in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public or private debts, such payment to be made one year from the date of this instrument, together with interest from the date hereof at the rate of 9-1/2% per annum on the unpaid principal amount outstanding on the date on which such interest is due, such interest to be paid in quarterly installments on each April 10, July 10, October 10, and January 10 commencing July 10, 1970.

This note may be prepaid without penalty at any time during the term thereof.

If there shall be any default in the payment of any installment of principal or interest when the same shall become due and payable hereunder, and such default

shall not have been remitted within ten (10) days after mailing a notice thereof, all installments shall become due and payable forthwith at the option of the holder hereof.

The undersigned, if more than one, shall be jointly and severally liable hereunder and, the term "undersigned" shall mean the undersigned or any one or more of them and their heirs, executors, administrators, successors, or assigns.

This note is made in and is intended to be performed in the State of New York and shall be governed and construed in accordance with the laws of such State.

If this note is placed with an attorney for collection, the compare shall pay all costs of collection, including, but not limited to, counsel fees, which fees shall be added to the unpaid balance of this note and be recoverable with and as a part there of.

11. 16 1.	
Signature. Atvart. a. Well	Sign
Address D.I.S. House Lane S	ands Point
	N.A.
Signature	

\$16,926.00

April 10, 1970 New York, New York

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Signature Atvant . 4	fackson
Address Old Horse Le	ne Sands Point. NewYork
Signature	
Address	

Copy received nov. 3, 1975 Centro, Milled-Prevent, Celt , Thoule